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IMPACT OF WAR IN UKRAINE

An Indian Perspective

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ANALYSIS

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Abstract

The Indian response to the Russian invasion of Ukraine was determined by domestic economic considerations and higher strategic priorities, specifically its concerns about a more assertive and powerful China. India carefully maintained its declining relationship with Russia and took a neutral position regarding the Ukraine conflict, as the primary strategic benefits of its relationship with Russia were to keep Moscow neutral when New Delhi and Beijing clashed and an inexpensive military supply chain. India took a realpolitik position, with hard-nosed reasons to maintain relations with Russia but none when it came to being involved in a far-off regional conflict.

The war in Ukraine presented several diplomatic and economic challenges for India. Diplomatically, India required the US, its primary partner in a larger strategic response to China, to accept its neutrality, which proved easy as Washington took the view that India's strategic importance to the Quad and its Indo-Pacific strategy was paramount. The US applied no pressure on the Narendra Modi government to change its Ukraine position. India was unconcerned about European criticism given its self-serving stance on Chinese aggression.

Economically, the war not only sharply reduced India's economic growth prospects but also triggered an inflationary crisis that became New Delhi's primary policy focus between February and October. As food and fuel were the main inflation drivers, India began buying discounted Russian oil and fertilizer to mitigate the social and economic damages.

By spring, India began thinking of ways to help bring the war to a close and privately and later publicly pressed Russia to consider negotiations with Ukraine, in coordination with the West.

The geopolitical implications of the war for India remain in flux. To begin with, India seeks to determine the extent to which Russia has become dependent on China following its isolation from the West.

Second, the war seems to have reassured India that the US is prepared to take a geopolitical view of their relationship and overlook inevitable differences in lesser policy areas. Third, India will observe whether Germany and other European nations rebuild their military capabilities and begin treating China as a strategic threat because of the Ukraine war. If Europe does both, India will have cause to believe security and defence relations with Europe are worth investing in; at present, it maintains defence relations only with France. Finally, India will, in the short term, pull back from its aggressive net zero climate plans (given the drop in its growth rates) and its increased coal consumption caused by the spike in oil and gas prices.

1 India's Foreign Policy

1.1 Primacy of the Chinese rivalry

The defining strategic focus of Indian foreign policy is responding to a more assertive and powerful China. After several years of failed attempts to achieve a modus vivendi with Beijing, the most evident example being a bloody Himalayan border clash in 2020, New Delhi began deepening its security ties with the US. Even before the clash, India had been screening Chinese investment into critical economic sectors and later banning or limiting Chinese software and equipment that handled data. There were several other results of the border clash. India supported the Quad's upgrade to a summit-level technology coalition with an implicitly anti-Chinese bias. Domestically, restrictions on Chinese business in India increased in scope, including a ban on Chinese hardware from India's 5G telecom network. The India-US relationship when Russia invaded Ukraine was arguably at a strategic level not seen since the Kennedy years[1].

1.2 Modi's economic focus

A deeper motivation of the Narendra Modi government's worldview was finding the means to leverage foreign relations to boost the economic and technological trajectory of India. Modi has declared the ambitious goal of making India a $5 trillion economy by 2025. In pursuit of this target, he carried out some of the most sweeping economic reforms the country had seen in three decades, with the idea of making the private sector the driver of growth, streamlining a fragmented domestic economy, reviving the country's weak manufacturing sector, and using digital technology to leapfrog India's economy into the future. Within a few months of his coming to office, Modi realised closer relations with the US and US allies like Japan and the United Arab Emirates would be needed to achieve this growth story. China, in contrast, was a negative: Indian manufacturers struggled against cheap Chinese imports and Chinese entities posed a securi-

1 Mohan, C.R., 2022. India, America and the China challenge, Indian Express, 19 October. Available at: https://indianexpress.com/article/opinion/columns/india-america-and-the-china-challenge-8214579/.

ty to India's digital economy[2].

1.3. Europe's marginal role

India had traditionally seen Europe as important for trade and investment but geopolitically irrelevant. India's Europe policy was a bundle of bilateral relations focussed largely on the United Kingdom for finance and investment, France for defence equipment and Germany for trade. Brexit forced India to review its relations with the European Union. But as India's relations with China deteriorated and those with the US grew in importance, the ambiguous response of the EU towards China and geographic distance from the Indo-Pacific region meant Europe's geopolitical relevance to India steadily decreased (with the exception of France).

2 Private conversations with Indian officials and Bharatiya Janata Party advisors over several years.

2 Managing a Declining Friendship

2.1 Strategic benefits

While India's relationship with Russia has its roots in its proximity to the Soviet Union since 1965, it has been flat lining since the early 1990s. The tangible heart of the relationship is military equipment. Russia provides nearly half of India's arsenal today, though this is a decline from 75% in the 1990s. There was little to show for economic relations other than Indian fertilizer and diamond imports. Before the war in Ukraine, Russia represented 1% of India's external trade. India's largest investments in Russia were equity stakes in Eastern Russian oil and gasfields, profitable but not directly consequential to Indian energy needs[3].

Indian officials say the primary strategic benefit of the Russian relationship is keeping Moscow neutral when New Delhi and Beijing clash. Otherwise, India and Russia have had their share of differences, including those over the US military presence in Afghanistan and the strategic relevance of the Indo-Pacific. The Modi government also noticed the increasingly erratic foreign policy of Vladimir Putin, evident while supporting the return of the Taliban government or refusing to support his own ally, Armenia, in its 2002 war with Azerbaijan[4].

2.2 Original Crimea response

New Delhi had to work overtime to keep the relationship from foundering. Its energy investments and purchase of systems like the Russian S-400 air defence systems were designed to bolster an otherwise flagging relationship. It also provided rhetorical support to Russia on issues where India felt a lack of tangible interests. When

3 Unnikrishnan, N., 2015. With expensive wish list, Modi flies to Moscow, Observer Research Foundation commentaries, 22 December. Available at: https://www.orfonline.org/research/with-expensive-wish-list-modi-flies-to-moscow/.
4 Private conversations with Indian diplomats from January to April 2022

Putin overran the Crimean peninsula and parts of eastern Ukraine in 2013-14, for example, the liberal-left Manmohan Singh government declared Russia had "legitimate" security interests in Crimea. India took a realpolitik position: it had hard-nosed reasons to maintain its relationship with Russia but none when it came to this small conflict in a far-off region. But the Indo-Russian relationship, despite a relative degree of goodwill between the two governments, is clearly struggling to find points of convergence. India's shift to a more private sector, market-driven economy, its need for a new generation of smart weapons, its plans for green energy transition and Sino-Indian hostility all work against the Indo-Russian relationship[5].

5 Times News Network., 2014. Russian interests in Crimea legitimate: India, Times of India, 7 March. Available at: https://timesofindia.indiatimes.com/india/russian-interests-in-crimea-legitimate-india/articleshow/31557852.cms.

3 India Responds to the War

3.1 Neutral stance

Like most governments, India was caught by surprise when Russia invaded Ukraine with the intention of overthrowing the regime and, subsequently, as surprised by the degree of Ukrainian resistance. As it assumed a limited and one-sided conflict (and given the preponderance of its interests were with Russia), the Indian government took a neutral stance. Materially, it remained dependent on Russian military supplies to maintain its defence position with regard to China. India and China still had 120,000 soldiers in forward positions against each other following the Ladakh clash of 2020. It saw no reason to change its original strategic equation with Russia when it came to China or other regional interests like Central Asia[6].

3.2 Evacuating students

Indian neutrality was most evident when the United Nations Security Council first took up the Ukraine war and India abstained, with eventually 11 votes criticizing Russian aggression or supporting sanctions against the Russian regime. New Delhi had an additional reason to keep a bridge to both sides when it discovered that it had over 20,000 Indians, mostly students, stranded in Ukraine. The last became the primary concern of the Indian polity in the initial months of the war, with the government pulling out all stops to evacuate the students via Poland and Romania. One student was killed in the process, but the whole exercise came to be seen as both a success for the Modi government and an example of why India benefited from keeping communications open with both antagonists in the war[7].

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6 Outlook., 2022. Ladakh Stand-Off: India, China Agree To Hold Next Round Of Talks Soon, 31 May. Available at: https://www.outlookindia.com/national/ladakh-stand-off-india-china-agree-to-hold-next-round-of-talks-soon-news-199539.

7 IANS., 2022. Explained: How India got Its citizens out of Ukraine under Operation Ganga, Business Standard, 15 March. Available at: https://www.business-standard.com/article/international/explained-how-india-got-its-citizens-out-of-ukraine-under-operation-ganga-122031500135_1.html.

3.3 Diplomatic challenges

Diplomatically, India faced several major challenges. One was to explain its posture to the US. This proved quite easy with the Joe Biden administration taking the view that India's strategic importance to the Quad and integral role in the US's response to China was of overriding importance. Indian and US officials both say that there was no pressure on the Modi government to change its neutral stance, though New Delhi faced some criticism in the US media and Congress. India also understood that the US relationship was sufficiently important that it had to make a special effort to explain its position.

New Delhi had no such sentiment regarding Europe. While the governments of the UK and France accepted India's arguments, there was a lot more criticism of India's posture in Europe at official and civil society levels. With the Europeans, the Indian government was more brusque in its response. In New Delhi's view, the EU member-states were being hypocritical when they said Ukraine was about upholding international law and a rules-based order, given how silent the EU had been when China forcibly captured much of the South China Sea in defiance of a UN court ruling or, for that matter, when Chinese troops attacked Indian soldiers in 2020. Indian Foreign Minister S. Jaishankar's strong rebuttal of European criticism at the Bratislava Forum in June that year became one of the most popular video clips in India that month and was translated into over three dozen languages[8].

New Delhi's response to the Russian invasion also evolved over time. Its initial policy response was to ensure its military supply chain given tensions with China and work to the evacuation of its nationals caught in the conflict area. It then turned to buffering the economic consequences of the war, described below, through the purchase of large amounts of discounted Russian oil and (later) fertilizer. By the end of March, it had begun to look at what it could do diplomatically to initiate a process to end the war[9].

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8 News18., 2022. EAM S Jaishankar Goes Viral for Savage Reply to Question About India's Stance on Ukraine, 3 June, 2022. Available at: https://www.news18.com/news/buzz/eam-s-jaishankar-goes-viral-for-savage-reply-to-question-about-indias-stance-on-ukraine-5305867.html.
9 Roy, S., 2022. Why telling Russia to abandon war is in India's interest, Indian Express, 25 September. Available at: https://indianexpress.com/article/explained/explained-global/why-telling-russia-to-abandon-war-is-in-indias-interest-8168623/.

3.4 India's diplomatic activity

The Modi government had already reached out to Ukraine, with several conversations being held between Modi and the Ukrainian President Volodymyr Zelenskyy and the two foreign ministers. According to diplomatic sources, the Ukrainian ask was whether Modi would be prepared to act as a conduit to Putin as and when the need arose. After Modi said he had no issues in playing that role, Ukraine indicated it had no concerns about Indian neutrality. Kyiv has been largely quiet about India's stance and praised New Delhi for its provision of aid to Ukraine. At the G-7 summit in Germany, the leaders there asked Modi if he could play a mediator's role. India had already acted as a go-between when the West became concerned about Russian attacks in the vicinity of a Ukrainian nuclear reactor. At the bilateral level, as the war dragged on and so did the economic consequences, India began pressuring Russia to consider negotiations with Ukraine and started thinking about how to bring the conflict to an end. Modi began pushing Putin on this point in their private conversations and similar messages were made to Russian Foreign Minister Sergei Lavrov when he visited Delhi in April. The Indian leader went a step further at the Shanghai Cooperation Organization summit in September, where he publicly told Putin that this is "not an era of war". India played a key role in getting that and similar language on the Ukraine war into a joint resolution of the G-20 summit in Bali, getting both Russia and the West on board with the language[10].

10 Private conversations with US and Indian diplomats; Laskar, R., 2022. G20 summit 2022: India's views on Ukraine war help chart draft communiqué, Hindustan Times, 16 November. Available at: https://www.hindustantimes.com/india-news/g20-summit-2022-india-s-views-on-ukraine-war-help-chart-draft-communiqu-101668538554186.html.

4 Economic Fallout

4.1 Inflation focus

India emerged from two years of COVID-induced lockdowns with an expectation of a rebounding economy: projections at the start of 2022 spoke of 8.5 or 9% GDP growth. This was all the more important because Modi was heading for general elections in early 2024, and addressing unemployment problems caused by COVID lockdowns was a key concern of his party. The outbreak of war not only clipped two or more percentage points of growth but triggered an inflationary crisis that became New Delhi's primary policy focus between February and October. Few things are as politically devastating in India as inflation and, as a large-scale importer of oil and gas, it is particularly vulnerable to fuel price surges[11].

4.2 Energy crisis

The imposition of sanctions on Russia, one of the world's largest producers of oil and gas, by the US and other Western countries immediately led to a surge in global energy prices. The fighting's disruption of wheat exports from the Black Sea led to global grain prices rising. India's consumer inflation rate rose sharply, peaking at 7.8% in April, nearly double its figure from the year before, with fuel and food prices being the primary contributors. India's crude oil basket price rose from $ 84.7 in January to a high of $116 in June. Foreign portfolio investors also shifted their capital out of emerging economies like India, weakening the rupee exchange rate against the dollar and eroding India's foreign exchange reserves. Foreign exchange reserves had fallen $ 110 billion by September, on a yearly basis. The rupee's decline further aggravated inflation as most of India's energy imports were dollar-denominated. Shoring up the Indian economy on multiple fronts was the overriding policy priority of the Modi government by the spring of 2022[12].

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11 Gera, I., 2022. India lost out more than its peers in forecast revisions for 2022, Business Standard, 10 October. Available at: https://www.business-standard.com/article/economy-policy/india-lost-out-more-than-its-peers-in-forecast-revisions-for-2022-122101001330_1.html.
12 Bandyopadhyay, T., 2022. Blame it on oil, Business Standard, 14 March. Available at: https://www.business-standard.com/article/opinion/blame-it-on-oil-122031300823_1.html.

4.3 Discounted oil

Oil and gas stocks were already tight because of a global underinvestment in fossil fuel production over the past few years. The war's risk premium and Europe's hunt for alternative oil and gas supplies beyond Russia drove up energy prices globally. While India's gas supplies were largely secured by long-term contracts, oil supplies were not. India's crude oil price basket, which had been a comfortable $84.67 in January, spiked when the war broke out, peaking at a crippling $116 in June. New Delhi saw the offer of discounted oil by Russia as an economic lifeline. India was careful to see that its purchases did not run afoul of the letter of Western sanctions, clearing its payments with the US Treasury department and using the same banks that were handling the continuing European gas purchases from Russia. India's oil purchases slowly rose to about one million barrels a day by June, about a fifth of the country's total imports, and at about 7% lower than what it paid for other types of oil[13]. The government left it to individual oil companies to make their own arrangements regarding shipping, payment and the like. The companies would sometimes play Russia against more traditional oil suppliers like Saudi Arabia and Iraq to get additional discounts from the latter two exporters.

4.4 Diamonds and urea

India was also concerned about non-oil supplies from Russia, with the most important being fertilizer. As urea's feedstock is normally natural gas, fertilizer prices had risen in tandem with gas prices around the world. This had a direct bearing on food prices. India began importing discounted urea from Russia. The price was still much higher than normal, so an additional domestic subsidy was introduced with the sole purpose of keeping food prices under check. By one official calculation, India would have to fork out some $30 billion in fertilizer subsidies as a consequence[14]. India had an addition-

13 Kaul, V., 2022. Why India has been buying Russian oil, Mint, 10 November. Available at: https://www.livemint.com/market/mark-to-market/why-india-has-been-buying-russian-oil-11667976443299.html.

14 Shukla, A., 2022. Fertilizer Min sees subsidy bill at Rs 2.30 L Cr: FinMin disagrees, Economic Times, 29 November. Available at: https://economictimes.indiatimes.com/industry/indl-goods/svs/chem-/-fertilisers/pre-budget-discussions-fertilizer-ministry-sees-subsidy-bill-at-2-30-lakh-cr-finmin-

al burden of providing fuel, food and fertilizer to other countries in its larger neighbourhood including Bangladesh, Sri Lanka and Yemen, as they all struggled to keep their economies afloat. There were additional imports like diamonds, which were needed for India's gems and jewelry industry, and thermal coal, as industry began switching from overly expensive oil and gas. India explored the possibility of direct rupee-ruble trading in an attempt to preserve its hoard of dollars, but, at the time of writing, this had not proven successful[15].

4.5 Lowered growth

By October, India's consumer price index had stabilised at about 6-7%, still higher than its central bank's target of 4%, but the figure was expected to fall over the next few quarters. It had worked out a steady supply of oil and coal, including that from Russia, to ensure protection against the sort of power cuts and blackouts that afflicted many of its foreign exchange-stressed neighbours like Pakistan and Bangladesh. The rupee had lost nearly 10% of its value against the dollar by December, year on year, but performed better than most other emerging economy currencies. By November, foreign exchange reserves began to rise again. However, India's current account deficit ballooned thanks to higher energy imports. Growth rate forecasts had been cut to 6 to 6.5%. This was a major (but not the only) contributor to India's increasingly critical stance towards Russia over the war[16].

disagrees/articleshow/95837010.cms?from=mdr

15 Mishra, D. R. and Seth, D., 2022. Non-oil imports from Russia surge; exports face hurdles, Mint, 24 September. Available at: livemint.com/news/world/nonoil-imports-from-russia-surge-exports-face-hurdles-11663954508418.html.

16 Indian Express, 2022. CPI Inflation October 2022: India's retail inflation eases to 3-month low of 6.77% in October, shows govt data, 14 November. Available at: https://indianexpress.com/article/business/economy/india-october-2022-cpi-consumer-price-index-retail-inflation-mospi-nso-data-8267745/.

5 After the War

5.1 Questions about Moscow

There are several possible geopolitical consequences of the Ukraine war with regard to India. The most important is the degree to which Russia's invasion will accelerate the already declining trajectory of the Indo-Russian relationship. India had already begun phasing out Russian weapons platforms on the grounds of slipping technological standards. The failure of Russia on the battlefield will contribute to this, as will questions about the ability of Russia to produce more sophisticated weapons if it continues to be blocked from accessing German machine tools, South Korean chips and other high-end inputs.

5.2 Energy equation

India will continue its investments in Russian fossil fuel assets as Western investors avoid the Russian market, largely because of their profitability rather than any energy security concerns. This will be a diminishing trend if India is able to implement its far-reaching green energy transition plans. The fuel crisis that was partly caused by the war has renewed a "coal lobby" in India which argues the Modi government must link its green energy plans to tangible financing from the West. The prime minister's personal commitment to this cause is considerable but another year of disrupted energy supplies may force India to dilute its Net-Zero commitments. Diplomatically, India will increasingly find more in common with the US, France and possibly the UK over the coming years. France is already the most dependable ally of India at the UN Security Council and has been seeking to position itself as the "new Russia", capable of providing the nuclear submarines and frontline fighters presently provided by Russia[17].

17 Caulcutt, C. 2022. France aims to lure India from its main arms dealer: Russia, politico.eu, 25 November. Available at: https://www.politico.eu/article/france-eyes-opportunity-for-geopolitical-realignment-in-india-indo-pacific-russia-arms-modi-macron-putin-g20/.

5.3 Russia-China axis?

The most important determinant of the future of the Indo-Russian relationship will be the degree to which the war will drive Moscow and Beijing together. Russia has gone out of its way to promise India it remains a dependable provider of arms and will keep its relations with India and China independent of each other. Even while it was struggling to provide armaments to its own soldiers, Moscow made it a point to keep providing spares and promised shipments of weapons to India. But New Delhi will be carefully monitoring the post-war Sino-Russian relationship, as it cannot tolerate a situation wherein its defence supplies lie under the thumb of Beijing[18].

5.4 Closer to the West

One consequence of the war has been the strengthening of the US-India relationship. By giving India a free pass on its Ukraine policy, Washington proved to New Delhi that it was prepared to take what US diplomats call "the long view" on the relationship. In other words, it was willing to overlook various differences and frictions as long as India remained committed to the broader strategic vision of constraining China. Indian officials are also curious as to whether the Ukraine war will kindle a geopolitical mindset in countries like Germany, poised to make them possible partners in the Indo-Pacific and other global theatres. Chancellor Olaf Scholz's promise to spend $100 billion on defence was welcomed by India though there is now a sense that Germany is already trying to avoid re-militarisation and, therefore, will not be adopting a more strategic vision of its foreign policy or at least one that encompasses China[19].

India, the US and some EU member-states should consider trilateral dialogues to discuss the present strategic environment in both Europe and the Indo-Pacific and how each of them is responding to them. There are too many variables to predict the specific policy

18 Manchi, A and Kotasthane, P. 2022. India's Russia problem will grow, Times of India, 23 September; Menon, R., and Rumer, E. 2022. Russia and India: A new chapter, Carnegie Endowment for International Peace, 20 September. Available at: https://carnegieendowment.org/2022/09/20/russia-and-india-new-chapter-pub-87958.

19 Private conversations with Indian diplomats between June and November 2022

path of each member, but a better understanding of their specific strategic logic and transparency into their decision-making process will help one discover their respective congruences and divergences. The US is notable for having established institutional structures for such discussions with India and the US, but there remains a considerable gap between India and Europe. India continues to be sceptical about buying non-French European weapons because of concerns that spares and supplies will become hostage to human rights (or similar) issues given the EU's activism in these areas. If Europe wishes to help move India away from its dependence on Russian arms, it needs a dialogue on ways to overcome such Indian concerns. Last, as technology itself becomes more strategic, there must be a concerted effort to make the new India-EU Trade Technology Mission successful in terms of providing for India's long-term technological ambitions and, therefore, allowing India to place itself at a greater distance from Russia and China.

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