



Peace critical for sustaining recovery

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(Mains GS 2 : Effect of Policies and Politics of Developed and Developing Countries on India's interests, Indian Diaspora.)

Context:

India is exploring ways to set up a rupee payment mechanism for trade with Russia to soften the blow on **New Delhi** of Western sanctions imposed on Russia after its invasion of Ukraine.

Proposal in consideration:

- Due to proposed sanctions, India would not be able to settle the transaction in dollars and so an arrangement has been proposed to set up a rupee account.
- Funds in such accounts act as a guarantee of payment for trade exchanged between two countries, while the parties barter commodities from each other to offset the sum.
- The plan was to get Russian banks and companies to open accounts with a few state-run banks in India for trade settlement.
- This is a proactive move assuming that the conflict escalates and there could be a slew of sanctions in place.
- Such mechanisms are often used by countries to shield themselves from the blow of sanctions and India had also used it with Iran after it came under Western sanctions for its nuclear weapons programme.

Supply issue:

- Russia's exports to India stood at \$6.9 billion in 2021, mainly mineral oils, fertilisers and rough diamonds, while India exported \$3.33 billion worth of goods to Russia in 2021, mainly pharmaceutical products, tea and coffee.
- Russia and Belarus usually account for nearly a third of India's total potash imports; thus, it would not be feasible to replace them amid a rally in fertilizer prices to a record high.
- Thus, India is concerned that vital supplies of fertilizer from Russia could be disrupted as sanctions intensify, threatening India's vast farm sector.

Opportunity to export:

- The Russia-Ukraine crisis might give India an opportunity to export more wheat in the global markets and domestic exporters should tap this opportunity.
- India's central pool stood at 24.2 million tonnes, twice more than the buffer and strategic needs.
- Russia is the world's largest exporter of wheat, accounting for more than 18% of international exports.
- In 2019, Russia and Ukraine together exported more than a quarter (25.4%) of the world's wheat and Egypt, Turkey and Bangladesh bought more than half of Russia's wheat.

Economic recovery:

- In this period of prolonged uncertainty, it would be wise to remain agile and respond in a gradual, calibrated and well telegraphed manner to the emerging challenges.
- The economic recovery from the pandemic remains incomplete and uneven, thus continued support from various policies remains crucial for a sustained recovery; however the renewed surge in international crude oil prices requires close monitoring.
- India needs to remain watchful of the risks to domestic inflation arising from rise in international commodity prices due to exogenous factors including geopolitical developments.

Conclusion:

World hopes for peace to be returned at the earliest as Russia-Ukraine developments are a challenge for economic recovery around the world including India.

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