

India and the Russian Far East

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Abstract

Prime Minister Narendra Modi was the Chief Guest at the fifth meeting of the Eastern Economic Forum (EEF) held at Vladivostok, Russia in early September 2019. The Prime Minister's participation in this meeting underscored India's growing interest in building closer economic ties with the Russian Far East. India and Russia have long shared geopolitical perspectives on the balance of power across Eurasia. In the post-Cold War era, both turned their attention to the West. However, over the past decade India has pursued a "Look East Policy", seeking to regain its political and economic influence in South-East Asia and building new strategic partnerships with East Asian powers like Japan and South Korea. Russia's 'pivot to the East' and India's move from 'Look East' to 'Act East' have created a new framework for closer India-Russia geo-economic and geopolitical relations.

India views Russia's new Far East policy as both a geopolitical and geo-economic opportunity. To be able to realise the full potential of the opportunity, Russia will have to simplify its visa and residency procedures and policies and ensure a simple and transparent foreign investment policy. On their part, Indian business should look beyond oil and gas and explore new opportunities in farming, mineral exploration, manufacturing and shipping. The Russian Far East can also become a manufacturing base for Indian exporters seeking to tap the markets of North-East Asia.

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Introduction

Until the late 1980s, the erstwhile Soviet Union was among India's largest trade partners, along with the European Union (EU). The implosion of the Union of Soviet Socialist Republics (USSR) disrupted this important economic relationship with Russia's share in India's external trade collapsing from 16 per cent in 1988 to 2 per cent in 1992. Even as India and Russia were grappling with issues like the transition from Rupee-Rouble trade to Dollar-denominated trade and ensuring continued access to strategic imports, including nuclear and defence related materials, the idea of looking for new ways to sustain the bilateral relationship did figure in policy conversations in New Delhi. I recall a conversation with late K Subrahmanyam, long-time director of the Indian Institute of Defence Studies and Analysis (IDSA), in the mid-1990s when he spoke of the need for India to tap the resource potential of the Russian Far East.¹ Subrahmanyam was far-sighted. He compared the Russian Far East to parts of Canada where farmers from the Punjab state in India have long settled and become highly productive farmers.² Despite such an early recognition of the economic importance of the Russian Far East for India, neither government went beyond the energy sector to tap this potential. India's investments in oil and gas fields remain the only major economic link to date.

The Russia-India bilateral strategic partnership agreement signed in 2000 became the basis for long-term cooperation in the energy field between the two countries. In 2001, the international arm of the Indian Oil and Natural Gas Commission (ONGC), Oil Videsh Limited invested in the Sakhalin-I oil field, taking a share of 20 per cent, making it the biggest Indian investment abroad in the oil sector. In 2004, Russia and India agreed to undertake joint exploration of gas in the Caspian Sea. Since then, India has shown increasing interest in investing in Far East oil and gas fields, including offshore fields. This activity in the energy sector has, however, not been matched by any progress on the farming and industrial fronts until recently.

The lack of adequate engagement with the Russian Far East was only an aspect of a more generalised disengagement between India and Russia during the 1990s. The main reason for this was the fact that both countries were busy looking to improve their relations with the West. While Russia remained focused on relations

with Europe, India was busy building a new partnership with the United States (US). This reduced bilateral engagement underpinned the lack of any active engagement in the Russian Far East. Even India's "Look East Policy", enunciated in the early 1990s with an aim to renew ties with the countries of South-East Asia, was extended at best to closer economic engagement with Japan and South Korea but did not go beyond that till recently.

While there has been limited Indian interest in the Russian Far East, the fact is that such an engagement is a natural corollary of the structure of the two economies. Russia is a resource-surplus economy while India is a resource-deficit economy. This difference has become the basis of a new partnership based on shared geo-economic interests. As a labour-surplus and energy deficient economy, India can benefit from access to land (farming and food) and energy resources in the Russian Far East. As a labour-deficit economy, Russia can benefit from Indian in-migration, which does not pose any long-term strategic challenge in the manner that an influx from neighbouring regions could. India is also a growing market for Russian exports.

The government of India has indicated Indian business interest in sectors such as diamond-processing, petroleum and natural gas, mining coal and other minerals, agro-processing and tourism, each of which have been identified as priority areas for development in the Russian Far East. The new thinking shaping Russia-India relations is a response both, to their mutual economic needs especially in the context of Western economic sanctions on Russia and to the emergence of China as a geo-economic and geopolitical challenge in the Far East. To take full advantage of this opportunity, India must improve its connectivity to the region. India's growing engagement of East Asia and the emergence of the Indo-Pacific Region (IPR) as a link between India and the eastern rim of the Pacific offer new opportunities for Russia-India partnership.

Developments Post 2012

Interestingly, both India and Russia stepped up their engagement with South-East Asia in the 1990s, becoming dialogue partners of the Association of South-East Asian Nations (ASEAN), member of the ASEAN Regional Forum and subsequently members of the East Asian Summit. Most analysts mark Russia's chairmanship of the Asia-Pacific Economic Cooperation (APEC) in 2012 as marking

the point of departure of a new and higher level of engagement with East Asia. Several factors have driven this process – Russia’s disappointment with its attempt to move closer to Europe; Russia’s concern with China’s emergence as a dominant geo-economic and geopolitical power in Asia; and above all, the emergence of Asia, especially East and South-East Asia, as the new engine of global growth.

Following the 2008-09 Trans-Atlantic financial crisis, both the US and the EU had an economic setback while China emerged a stronger economy. This crisis only accelerated an underlying trend of the shift of the centre of gravity of the world economy from the West to the East. Taken together, all these factors encouraged Russia to pay greater attention to its own Far East. The hosting of APEC in 2012 at Vladivostok only signalled this shift. In the same year President Putin told the St Petersburg Economic Forum, “We are ready to give investors more than just a new quality of financial, transport and energy infrastructure. A new Eurasian market offering a new configuration and immense potential opportunities is in the process of formation. Russia is developing integration projects in the Eurasian region at a rate and scale not yet seen before”. The outreach to Eurasia was part of the same “Look East” policy.

India was not, as yet, focussed on the new Russian pivot to the East. However, by 2017 India too linked itself to this process. At the St Petersburg Economic Forum 2017 India was a special guest. Addressing the Forum, Prime Minister Narendra Modi emphasised that India-Russia relations were based on trust and, would gain in strength in an ever-changing world. In September 2017, the then Indian foreign minister Sushma Swaraj led a high-level business delegation to the meeting of the EEF in Vladivostok and committed India to closer economic cooperation with the Russian Far East.

The Geo-economics of Indian Policy

As already mentioned, Indian interest in the Russian Far East has been focussed mainly on its need to tap into the region’s natural resources, including arable land. A recent Indian study identifies oil and natural gas, iron ore, copper, diamonds and gold, fresh water, timber and fish stocks as the resources of the region that would find an Indian market.³ One should also add arable land to this list. The key to India being able to tap these resources lies in

better connectivity. India has been emphasising the need for investment in shipping and ports and the development of a Blue Economy in the Indian Ocean and Indo-Pacific region. India's growing economic ties with Japan, South Korea, Taiwan and China have together made North-East Asia an important geo-economic region for India's own development. The Russian Far East is but a step beyond and offers significant economic benefits for India.

Hence, a necessary pre-condition for increased trade and investment relations between India and the Russian Far East would be the development of necessary infrastructure aimed at improved connectivity between the two regions. To encourage investment in connectivity and the related infrastructure of agricultural and industrial development in the Russian Far East, and to secure the interest of Indian investors in the region, India and Russia should put in place a free trade agreement, easier visa norms and improved travel facilities. Connectivity is key to development in the modern world. China's Belt and Road Initiative (BRI) underscores the importance of investment in connectivity for overall economic development. India and Russia too would need to invest in improved and more efficient connectivity between the two countries. While land connectivity is impaired by several geopolitical and security constraints, developing sea connectivity is possible. Hence the importance of maritime development and the growth of the Blue Economy.

It is in this context that the Chennai-Vladivostok sea route development has been proposed.⁴ This link would facilitate cargo transfers between the two eastern ports of the two countries in 24 days compared to 40 days that it now takes for ships that sail via Europe. The Chennai-Vladivostok shipping route would become the backbone of the Indo-Pacific maritime link between India and the Far East as a whole. However, the economics of this route will depend on the overall level of economic engagement between India and North-East Asia in general, and the Russian Far East in particular. Any viable maritime activity will require two-way trade so that ships are laden with goods on both journeys, to and fro.

Geopolitical Factors in Play

While long-term economic interests form the foundation for a meaningful bilateral relationship between India and the Russian Far East, the fact is that more immediate geopolitical and security

factors are also shaping economic decision-making in this case. China's emergence as a major economic power in Asia, as a source of investment, a market for exports and, above all, the source of mass labour migration have altered both, the geo-economics and the geopolitics of the Russian Far East. While China will remain an important economic and political player and security provider in the region, a fact reinforced by its BRI, Russia should de-risk its excessive dependence on China. Reaching out to other economic players in the East, including Japan, Korea and India, would make immense sense from a Russian viewpoint. India offers both, a market for Russian exports and a destination for Russian investment. However, going beyond pure economics, the Russia-India relationship has been built on longstanding-shared geopolitical interests and a security relationship based on mutual trust.

In the light of China's recently acquired dominance in the region, it should be obvious that geopolitical factors will balance out any economic imbalance that may exist on account of the low level of such engagement. In other words, even if Russia and China do more business with each other than Russia and India, the latter may in fact have a stake in cross subsidising their economic engagement for geopolitical reasons. To give just one example, even if the Chennai-Vladivostok shipping line does not make economic sense at this stage, given the low level of bilateral trade, it could still secure governmental support in both countries on account of shared geopolitical and security interests.

Prospects for the Future

The rapid manner in which the economic engagement between India and the Russian Far East has progressed in the past two years suggests that both governments are viewing the renewal of India-Russia relations, especially in the context of the development of the Russian Far East and Russia's "Look East" policy, seriously. This augurs well. However, to maintain the momentum of this engagement, both governments must ensure that their respective private sector firms participate actively in the new economic opportunities, going beyond oil and gas into manufacturing and agriculture. Indian out-migration, especially of farmers, and investment in energy and industrial projects on a sustained basis is essential at least to partly balance China's over-whelming presence in the region.

Prime Minister Modi's participation in the 2019 meeting of the EEF has been helpful in laying foundation for a deeper and stronger economic cooperation to India-Russia strategic relations, especially in the Far East.

Endnotes

¹ Author's conversations with K Subrahmanyam, 1993-94.

² See for example, "Punjabi farmers in Canada contribute immensely", *Hindustan Times*, 19 March 2016. Accessed at <https://www.hindustantimes.com/punjab/kisan-mela-punjabi-farmers-in-canada-contribute-immensely/story-qoV4wqT8oqmZYL7ucbmQgJ.html>

³ See Chandra Rekha (2017).

⁴ *Silk Road Briefing*

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