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# The Asian Mirror for the Far East: an Indian Perspective

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# About the Author

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## Executive Summary

India and Russia have long shared geopolitical perspectives on the balance of power in Eurasia. In the post-Cold War era both turned their attention to the West. However, over the past decade India has pursued the Look East Policy, seeking to regain its political and economic influence in Southeast Asia and building new strategic partnerships with East Asian powers like Japan and South Korea. Russia's Turn to the East and India's move from the Look East to the Act East Policy have created a new framework for closer India–Russia geo-economic and geopolitical relations.

Russia is a resources-surplus economy while India is a resources-deficit one. 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 migration inflows that do not pose any long-term strategic challenge in the manner that an influx from neighbouring regions could. Apart from that, India is a growing market for Russian exports.

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 in 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.

India views Russia's new Far East policy as both a geopolitical and geo-economic opportunity. To be able to realize the full potential of this opportunity Russia will have to simplify its visa and residency procedures and also 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 markets of Northeast Asia.

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# India and the Russian Far East

Up until the late 1980s, the erstwhile Soviet Union was among India's largest trade partners, along with the EU. The collapse of the USSR disrupted this important economic relationship with Russia's share in India's external trade plummeting from 16% in 1988 to 2% in 1992. Even as India and Russia were grappling with issues like the transition from the rupee–rouble 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 appeared in policy conversations in New Delhi. I recall a conversation with the late K. Subrahmanyam, a long-time director of the Indian Institute of Defence Studies and Analyses, in the mid-1990s, when he spoke of the need for India to tap the resources potential of the Russian Far East.<sup>1</sup> 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.<sup>2</sup> Despite such an early recognition of the economic importance of the Russian Far East to India, neither government went beyond the energy sector to tap this potential. India's investment 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 a 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), Videsh Limited, invested in the Sakhalin-1 oil field, taking a share of 20% and 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, 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 generalized disengagement between India and Russia during the 1990s. The main reason for this was the fact that both countries

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<sup>1</sup> Author's conversations with K Subrahmanyam, 1993–1994.

<sup>2</sup> See, for example, 'Punjabi Farmers in Canada Contribute Immensely', 2016, *Hindustan Times*, March 19. Available from: <https://www.hindustantimes.com/punjab/kisan-mela-punjabi-farmers-in-canada-contribute-immensely/story-qqV4wqT8oqmZYL7ucbmQgJ.html>

were busy looking to improve their relations with the West. While Russia was more focused on relations with Europe, India was engaged in building a new partnership with the US. This wider framework of 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 the aim to renew ties with the countries of Southeast Asia, was extended at best to closer economic engagement with Japan and South Korea but did not go beyond that.

While there has been limited Indian interest in the Russian Far East until recent times, the fact is that such an engagement is a natural corollary of the structure of the two economies. India is a resources-deficient, labour surplus economy while Russia is a resource-rich, labour-deficit one. It makes perfect sense for India to be more engaged in the economic development of the Russian Far East.

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## Developments After 2012

Interestingly, both India and Russia stepped up their engagement with Southeast Asia in the 1990s, becoming dialogue partners of ASEAN, members of the ASEAN Regional Forum, and subsequently members of the East Asia Summit. Most analysts point to Russia's chairmanship in 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, its 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 Southeast Asia, as the new engine of global growth.

Following the 2008–2009 Transatlantic 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 in the world economy from the West to the East. Taken together, all these factors encouraged Russia to pay greater attention to its own eastern territories. The hosting of APEC in 2012 in Vladivostok only signaled this shift. In the same year, President Putin told the St. Petersburg International 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 a new course, similar to the Indian Look East Policy.<sup>3</sup>

India was not yet as focused on the new Russian Turn to the East. However, by 2017, India had got engaged in this process as well. At the St. Petersburg International 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, 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.<sup>4</sup>

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## The Geo-Economics of the Indian Policy

As already mentioned, Indian interest in the Russian Far East has been focused 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.<sup>5</sup> 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 development of the Blue Economy in the Indian Ocean and the IPR. India's growing economic ties with Japan, South Korea, Taiwan, and China have together made Northeast 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 the country.

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<sup>3</sup> Lo, B & Hill, F, 2013, 'Putin's Pivot: Why Russia is Looking East', *Brookings Institution*, July. Available from: <https://www.brookings.edu/opinions/putins-pivot-why-russia-is-looking-east/>

<sup>4</sup> 'India Wants to Extend Its Ties with Russia's Far East: Swaraj', 2017, *The Hindu Business Line*, September 7. Available from: <https://www.thehindubusinessline.com/economy/india-wants-to-extend-its-ties-with-russias-far-east-swaraj/article9847330.ece>

<sup>5</sup> Rekha, C, 2017, 'Relevance of Russian Far East in India's Geo-Economic Interests', *Centre for Air Power Studies*, December. Available from: [http://capsindia.org/files/documents/CAPS\\_ExpertView\\_CR\\_04.pdf](http://capsindia.org/files/documents/CAPS_ExpertView_CR_04.pdf)

Hence, a necessary pre-condition for increased trade and investment relations between India and the Russian Far East would be the development of the 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 BRI underscores the importance of investment in connectivity for overall economic development. India and Russia, too, will 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.<sup>6</sup> This link would facilitate cargo transfers between the two eastern ports of the two countries in 24 days compared to the 40 days that it now takes ships that sail via Europe. The Chennai–Vladivostok 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 Northeast 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, back and forth.

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## 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, has 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 the BRI,

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<sup>6</sup> 'Silk Road Briefing. Chennai to Vladivostok', 2017, September 14. Available from: <https://www.silkroadbriefing.com/news/2017/09/14/chennai-vladivostok-india-russia-maritime-overland-routes-develop/>

Russia should de-risk its excessive dependence on China.<sup>7</sup> Reaching out to other economic players in the East, including Japan, Korea, and India, would make immense sense from the Russian point of view. India offers both a market for Russian exports and a destination for Russian investment. However, beyond pure economics, Russia–India relations have 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<sup>8</sup> 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 does with 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 the account of shared geopolitical and security interests.

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## Conclusion. 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, following Prime Minister Narendra Modi's participation in the St. Petersburg International Economic Forum and Foreign Minister Sushma Swaraj's participation in the meeting of the EEF in 2017, 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 Turn to the 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 migration inflow, especially of farmers, and investment in energy and industrial projects on a sustained basis is essential to at least partly balance China's overwhelming presence in the region.

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<sup>7</sup> Sanghi, A et al., 2017, 'A Rebalancing China and Resurging India: How Will the Pendulum Swing for Russia?', *The World Bank Group, Russia*.

<sup>8</sup> Chaudhury, DR, 2018, 'In Balancing Act, Russia Opens Far Eastern Region to India', *The Economic Times*, July 12. Available from: <https://economictimes.indiatimes.com/news/defence/in-balancing-act-russia-opens-far-eastern-region-to-india/articleshow/60283658.cms>; Sharma, R, 2017, 'India and Russia Are Getting Together to Counter-Balance China – This Time in Russian Far East', *CNN News*, September 11. Available from: <https://www.news18.com/news/india/opinion-india-and-russia-are-getting-together-to-counterbalance-china-this-time-in-russian-far-east-1514833.html>





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