Russia’s Tryst With Asia

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ABSTRACT

The paper explores Russia’s shifting pivot from Europe and America to the rising economies of Asia. Russia has come under economic sanctions imposed by the Western nations from 2014 following Russia’s annexation of Ukraine. The sanctions kept piling as Russia was accused of interfering in the election process of America and some European countries. The Skripal poisoning case added fuel to the fire. These sanctions coupled with a decline in oil price shifted Russia’s attention to the economically growing and populated countries of Asia. Russia’s defence and energy exports found an impressive customer base in Asia. This coupled with the potentiality to invest in Russia has made Asia the new ground for Russia’s rising ambitions. The energy hungry economies of Asia also found a suitable mate in the resource rich Russia.

Keywords: Russia, China, India, Japan, Economy, Oil, Investment.

Russia is bi-continental with one third of its territory in the Eastern part of Europe, and two-thirds spread in the Northern part of Asia. The Asian part of Russia while three times bigger then its European part, has a three times smaller demography. The Asian part is rich in resources, if not in people and has 85 percent of Russia’s energy and wood, 75 percent of fresh water, the bulk of reserves of diamonds, gold, non-ferrous and rare metals.1 The global economic focus has shifted towards Asia, which is a dynamically developing region and the focus of key economic and political interests. The fast growing hungry economies of Asia are replacing the saturated tired West. Russia’s main export focus is its defence and energy industry. Russia is swinging with the global pendulum towards the economically rising Asia with its insatiable energy requirement and inexorable defence needs.

Russia’s main trading partner since 2010 has been China whose phenomenal rise has capitulated it in the second position on the economic graph of the world. The growth of China is both an opportunity and a challenge. Russia is also increasing trade with Japan and South Korea, the other two strong economies in the Asian belt. Russia is consolidating its position with traditional partner India, through increased trade both at a bilateral and multilateral level. Pakistan is also the new focal point since its geography and history makes it the determinant partner in the Afghan problem. The nature of the pivot to Asia is Russia’s old coat of arms adopted by the new state: a two-headed eagle that, according to Russian officials, looks towards both the West and the East at once.2

Russia’s Economy post Soviet Union

The collapse of the Soviet Union in 1990 and the subsequent transition form a centrally planned economy to market economy was disastrous for Russia. The nominal gross domestic product (GDP) experienced a 60 percent plunge falling from USD 516 billion in 1990 to USD 196 billion in 1999. The Soviet Union decided to privatize many Russian industries and a new class of wealthy oligarchs emerged. The economy however bounced back due to the devaluation of the ruble and the uninterrupted upward trend that oil prices experienced in the period from 1999 to 2008. The energy dependent economy grew at an annual average rate of 7 percent. The global economic crisis of 2008-2009, followed by a decline in oil prices, sent the Russian economy spiraling downwards. The petro dependent economy plunged 7.8 percent in 2009 as oil prices plummeted and foreign credit dried up. But the government and Central Bank’s proactive efforts to ring fence key sectors of the economy, particularly the banking sector ensured no long-term damage. The Russian economy again began to grow and increased 4.5 percent in 2010, 4.3 percent in 2011 and 3.4 percent in 2012 before slowing to 1.3 percent in 2013 and 0.6 percent in 2014.3

Russia’s economic turmoil began in mid-2014 with the collapse of ruble in the global foreign exchange market. Russian companies faced difficulty in repaying foreign denominated debt. The country’s economy was further hit in 2015 with sharply falling crude oil prices, although it recovered slightly by late 2017. Russia’s foreign debt increased from 7.4 percent of GDP in 2008 to 17 percent of GDP by 2017. Crude oil prices have fallen form $100 per barrel to $30 per barrel, between mid-2014 and early-2016. Investors hit the panic button and sold oil equities as they questioned the government’s ability to weather the storm. The production cuts by OPEC leaders caused the economy to rebound from their lows made in early 2016 to
reach over $50 by 2017. The prices stabilized in between their highs and lows in early 2016 and appeared to be moving higher throughout 2017.4

**Imposition of Economic Sanctions**

Sanctions were imposed on Russia in 2014 after its annexation of Crimea from Ukraine. The sanctions were subsequently increased after U.S. intelligence agencies accused Moscow of interfering in the 2016 presidential election. The Skripal poisoning case on English soil further added fuel to fire. An attempt was made to kill Sergei Skripal and his daughter residing in U.K. Skripal was a former Soviet spy who had switched sides. Since 2014, the U.S. has imposed travel bans, asset freezes and finance and trade restrictions against many Russian individuals and companies. About 700 Russian people and companies came under U.S. sanctions. There is a restriction on granting finance to many Russian oil and gas companies. The sanctions web has spread its tentacles engulfing billionaires such as Oleg Deripaska and Viktor Vekselberg supposed to be close to President Putin. The former chief of staff of President Putin, Sergei Ivanov and Dmitry Rogozin, a deputy prime minister from 2011 to 2018, and corporate titans such as Rosneft PJSC, Gazprom PJSC, Sberbank PJSC and VTG all are under the scanner. The U.S. has restricted the export of U.S. goods and technology to Russia on national security grounds from 22 August 2018. The U.S. may extend the sanctions deeper from November, including lessening of diplomatic ties. There could be a blanket ban on import of Russian oil and exports of “all other goods and technology aside from agricultural products, as well as limits on loans from U.S. banks. The U.S. might suspend aviation agreements and oppose any multilateral development bank assistance. The U.S. Congress skeptical about President Trump’s handling of Russia, pass legislation to codify the measures into a law specifying that they could vote to block any move by Trump to loosen them. The sanctions have limited investment and Russia’s access to technology and funds. International Monetary Fund (IMF) predicted that over the medium-term they could cut the size of the economy by almost a tenth. The ruble’s been the fifth worst global performer in 2018, depreciating nearly 13 percent against the US dollar, even as crude has recovered.

The global supply chain for aluminum was disrupted after April sanctions hit Rusal, sending prices soaring by 30 percent. This affected the big banks that finance aluminum trade, soda-can makers and miners. The Trump administration is threatening other countries, which have engaged in trade and commerce with Russia. The European companies, particularly German companies involved in Nord Stream 2, a planned natural gas pipeline under the Baltic Sea to Germany has come under the scanner. The European Union (EU) too imposed sanctions on Russia’s financial, energy and defence sectors.5

Even before the imposition of the economic sanctions post 2014, President Vladimir Putin had announced in 2013 about his country’s intention to pivot towards the Asia-Pacific region by increasing trade with the eastern markets and developing the Siberian and the Far eastern districts, recognizing East Asia as a hub of global economic growth. The Crimean incident acted as a catalyst to beat the Asian gong louder. The Russian administration was aware of the global power shift towards the Asia-Pacific region and made the development of Russian Far East a top policy priority. Russia wants to be the top energy supplier to the energy hungry growing Asian economies. Russia’s Far East has a comparative advantage in this policy formulation because of its rich resources and geographical proximity to Asia. Russia’s energy strategy for 2030 forecasts that Asia-Pacific market will consume 22 to 25 percent Russian oil exports and 19-20 percent of Russian gas exports. Russia broadened its energy outreach to various Asian economies. Russia’s energy sector forms the nucleus of the national economy and aids Russia in establishing its political clout.6

**Russo-Chinese Strategic Partnership**

Russia’s increasing bilateral power asymmetry and economic dependence on the People’s Republic of China (China) has given China a leverage over Russia. China’s increasing economic might has diminished the role of the former superpower in Asia and globally. Russia is seeking entrenchment in Asia through membership and active participation in local international organisations. Both partners affirm the balanced nature of their relationship, yet Russia’s economic dependence on China is an open secret. China affirms that both partners are close, but not military allies, yet Beijing is aware that they dominate in this strategic partnership and that this trend would only strengthen with time. Their characteristic mistrust for each other is sidelined for immediate benefits. Russia’s economic setback in 2008 following the global reduction in oil price gave an eastern orientation to its foreign policy directive. Russia agreed to build a spur to China from its Eastern Siberia Pacific Ocean oil pipeline. China agreed to give credit of $25 billion to Rosneft and Transneft stat-owned corporations which has been denied by Western and Japanese financial institutions. Rosneft agreed to supply an additional 16 million metric tons of oil every year to China National Petroleum.
Corporation (CNPC) over the next 25 years, while the China Development Bank made loans totaling $2 billion to Russian energy company, Gazprom which is the world’s largest supplier of natural gas. Gazprom pledged to supply 3 billion cubic meters of gas to China every year for a period of thirty years. Novatek, Russia’s largest private natural gas company sold CNPC a 20 percent equity stake in its liquefied Natural Gas (CNG) project in Yamal peninsula. Moscow in dire need of immediate and abundant funds had given up on its earlier policy of “anyone but the Chinese,” in energy exploration and development. Russia’s 2014 Ukrainian aggression and the subsequent imposition of sanctions reaped enormous profits for China. Russia was forced to drastically alter its 3-vector policy concerning China. The first overturn was allowing Beijing to penetrate in post-Soviet Central Asia, second the unofficial ban on selling the most advanced weaponry to China and thirdly allowing China’s investments in its principal resource extraction and infrastructure projects. CNPC by end of 2015 agreed to support and provide an additional 700 million yen for supporting the Yamal LNG Development Project. Many projects were signed in which Chinese finance was used by Russian companies who in turn traded Russia’s abundant resources.

In 2015 Russia negotiated with China to deliver the largest model of S-400 Triumph air defence missile complex and twenty-four Su-35 fighter jets. China was the first country to get these advanced defence systems. China became the largest capital provider to Russia and has acquired a foothold in Russia’s traditional strategic sectors such as energy, extraction of minerals and the defence industry. Moscow’s bilateral dependence on Beijing has expanded."There was a 30-percent increase in the first quarter of 2018. Both countries are aiming to boost trade to $200 billion by 2020. China being Russia's largest trading partner accounts for 15 percent of Russia's international trade in 2017. In 2017, bilateral trade had amounted to a whooping $84.1 billion recording a 19 percent increase year-on-year. Russia and China are also adopting local currency ruble and yuan for their bilateral payments giving dollar a skip. In 2017 nine percent of payments for supplies from Russia to China were made in rubles, Russian companies paid 15 percent of Chinese imports in renminbi.8

The significant increase in bilateral trade has been motivated by four factors: the EU sanctions imposed on Russia, the relative weakness of the Russian currency, Ruble, China’s OBOR initiative and mutual investment in integrated IT technologies, such as blockchain and 5G. “Russia is a key part of China’s OBOR plans”, says Chris Devonshire of Dezan Shira & Associates. "Without Russia on board there is no OBOR, it’s as simple as that.”

China and Russia are working on many key projects, China is hoping to enter into an agreement with Eurasian Economic Union, a Central Asian trade bloc that borders the EU. It would result in the supply of Chinese goods, duty free, to markets across Russia and to the very borders of the EU itself. Beijing and Moscow are also working together to build a high-speed freight rail link between the two cities. There are exploring the viability of developing a Northern Sea Passage on Arctic route, that will reduce transit times between Europe and China. The two countries, both pioneers in IT are attempting to synchronise IT-based e-commerce technologies. China holds sway over other countries in mathematics, functional programming and data structure challenges while Russians dominate in algorithms. If things move as planned Russia will be China’s trade corridor to and from Europe and a transport facilitator between the two.9

**Amicable Relations Develop Between Russia And South Korea**

Russia-South Korea relations have transformed from virtually non-existent to a formidable economic partnership. South Korea ranked as Russia’s seventh largest trading partner in 2015. Russia’s 2017 Eastern Economic Forum led to the formation of Korea Trade-Investment Promotion Corporation which aspires to help South Korean firms planning to operate in Russia. Russia’s Far East is a comparatively underdeveloped area. Seoul is aware of the potentialities present in the region and wants to consolidate its interest by investing in the Russian economy. Russia’s ‘turn to the east’ makes South Korea an important partner. The Russia-South Korea trade collaboration also includes development in broader Northeast Asian regional context. Prime Minister Moon spoke about the compatibility of Russia’s new East-Asia policy and South Korea’s new northern policy during the 2017 Eastern Economic Forum. Moon affirmed that the potential cooperation between the two countries constituted ‘nine bridges’ which range from gas infrastructure to seaports to Arctic shipping routes. Yury Trutnev, Russian Presidential Envoy for the Eastern Federal District said commodity turnover between the two countries grew 50 percent during the first half of 2017, and Russian exports to South Korea were up by 40 percent. South Korea’s proposed investment in Russia’s eastern region will help to mitigate the overwhelming dependence on China. The geographical proximity of South Korea to Russia’s Far East inevitably make it an important partner for Russia in that zone.10
Growing trade between Russia and Japan

Russia's energy exports to Japan increased substantially since 2011 following Japan's Fukushima Daiichi nuclear disaster which exposed Japan's energy vulnerability. Over 80 percent of the resource-poor island nation's energy use is imported and Japan ranks as the world's biggest consumer of liquefied natural gas (LNG), the second-largest coal importer and third-largest oil purchaser. Japan's nuclear disaster acted as a catalyst in paving the way for bilateral energy relations with Russia. Russia was quick to promise swift supplies of LNG, oil, coal, and electricity. Joint working groups on issues such as oil and gas were created. Japan is involved in two major projects on Sakhalin island, The Sakhalin-1 and Sakhalin-2 Project. The Sakhalin-2 resource extraction is under development by Japanese trading companies, Mitsui and Mitsubishi (which together own 22.5 percent), in collaboration with Gazprom and Shell. Since resuming Prime Ministerial duties in December 2012, Prime Minister Abe and Putin has met over twenty times till 2018.11

Keeping with its Asian engagement proactive Russia recoded a 24.8 percent growth in trade with Japan in 2017. The Russia-Japan engagement in a concrete way began after Prime Minister of Japan Shinzo Abe offered a cooperation plan to President Vladimir Putin on May 6, 2016. The plan included bilateral cooperation in energy, small and medium-sized businesses, the promotion of the industrialization of the Far East, expansion of the export base, as well as the proposal to strengthen cooperation in cutting-edge technologies, including nuclear energy, and the sphere of humanitarian exchanges. The plan sat the right cord in motion and there was an almost 25 percent upswing in trade in 2017.12

Traditional Friendship With India gets a New Economic Dimension

Russia and India have been traditional allies, the gamut of their friendship has spanned seven decades. The economic bilateral trade recorded an upsurge by 22 percent in 2017. Indian arms inventory has traditionally constituted mostly of Russian defence imports. Increasingly India and Russia have entered into strategic partnerships in the energy sector. India's mammoth energy requirement makes Russia a natural partner. Russia has traditionally been an important military supplier for India, which is one of the world's largest arms market. It is therefore crucial for one of the world's largest arms exporter Russia. Recently India diverted its suppliers and U.S. has emerged as the No 1 arms supplier to India in terms of the value of the new contracts, wresting that position from Russia. India has however opted for American weaponry only in those product categories where Russia has no competitive alternatives to offer like the medium and heavy military transport planes and cutting-edge airborne anti-submarine systems.

The nature of Russian and Indian economies are complementary and abound in possibilities of multiple engagements. While India’s geographical position makes it vulnerable to external skirmishes, its huge demography and rising economy entail a huge energy demand. In both military and energy sectors Russia is one of the world’s chief exporters. Both countries have a similar potential for regional dominance, though neither quite has the resources to be a top-tier global actor. Both India and Russia are facing the energetic opposition of an external superpower in their respective geopolitical neighborhoods that seek to create a cordon sanitaire around the countries. United States continues to infuriate Russia by meddling in the former Soviet republics, while China is attempting to surround India with a ring of naval bases. While America is using Ukraine as a ploy, China has targeted Pakistan. Both Ukraine and Pakistan are ethnically and culturally part of Russia and India respectively, but are building their historical legitimacy purely on the basis of Russophobia and Indophobia. Both these failed states receive military, political and economic assistance from extra-regional powers.13 India and Russia thus have common interests in advocating for a more polycentric world order.

The Indian defence budget in 2018-19 amounted to Rs 2,79,305 crore, with arms procurement spending around Rs 74,116 crore or $11.3 billion.14 India procured 62 percent of its defence needs from Russia during the period 2013-2017.15 The purchases included nuclear submarine INS Chakra, the kilo-class conventional submarine, the supersonic Brahmos cruise missile, the MiG 21/27/29 and Su-30 MKI fighters, IL-76/78 transport planes, T-72 and T-90 tanks, Mi-series of helicopters, and Vikramaditya aircraft carrier. The indigenization and self-reliance effort through the ubiquitous ‘Make in India’ by the Modi government also has given rise to joint production in the defence sector.16 The possibility of joint production resulting in future sale to third countries has also galvanized the defence relationship between the two countries. The Kremlin kept its competitive edge and remains the largest supplier of weapons to the Indian market. Moscow and New Delhi agreed on the import of Kamov Ka226T light utility helicopters and collaboration in manufacturing of four Admiral Grigorovich-class guided-missile stealth frigates. The 2017 was marked by a rare calendar feat: the Indian defence minister and national security advisor each visited Russia
twice. During the 8th BRICS Summit held in Goa in 2016 Prime Minister Narendra Modi and President Vladimir Putin witnessed the signing of a Rs 39,000 crore defence deal to procure Moscow's most advanced anti aircraft defence systems – S 400 Triumph, which will provide India a ballistic missile.

India's internal demand for oil is set to increase 224 MT in 2014 to 310 MT by 2030 while its requirement of gas would more than double from 51 bcm in 2014 to 114 bcm in 2030. Aware of India's burgeoning needs, India's oil minister Dharmendra Pradhan said that Russia is India’s largest investment destination in the oil and gas sector and he affirmed that the time-tested bilateral relationship has no expiry date. In October 2012, Gazprom signed a 20-year agreement with GAIL for the annual supply of 2.5 million tonnes of LNG to India (with deliveries set to begin in 2018). By June 2018 Gazprom has started delivering liquefied natural gas (LNG) to India under a 20-year import deal at $1.5 per MMBtu. A consortium led by Indian Oil bought a 23.9 percent stake in Vankorneft, a subsidiary of Rosneft, as well as a 29.9 percent interest in Tass-Yuryakh Neftegazodobycha. Indian companies have also invested in Sakhalin. India’s investment in Russia’s oil and gas sector has crossed $10 billion.

In 2015 Rosneft assigned a 10-year contract with Essar to deliver 100 million tonnes of crude oil to Vadinar refinery. Rosneft with its partner Trafigura, purchased a stake in Essar worth $13 billion. Rosneft will receive 49 percent of Vadinar Oil Terminal, the second largest refinery in India, as well as a network of 2700 Essar-branded petrol stations. The current volumes of gas and oil are sufficient to cover around 10 percent of gas and 5 percent of oil currently imported into India.

In 2016-17 total trade between India and Russia amounted to $7.5 billion, registering an impressive growth of 22 percent. India’s exports to Russia increased from $0.94 billion in 2007-08 to 1.9 billion in 2016-17. Indian imports form Russia increased from $2.5 billion in 2008-09 to $5.7 billion in 2016-17. Gems and jewellery constitute the top Indian imports constituting 45.4 percent of the total import basket while the top export was of pharmaceutical products, which occupied 18 percent of the total export basket. Russia could also invest in Delhi-Mumbai Industrial Corridor, Smart Cities, railways, public transport, urban rail, sanitation and low cost housing.

The Start of a New Friendship

Russia ended the drought in its relationship with Pakistan and agreed to sell Islamabad four Mi-35M attack helicopters and facilitate its entry into Shanghai Cooperation Organisation. Moscow besides conducting joint military exercises with Islamabad has pledged $2 billion for a natural gas pipeline connecting Karachi and Lahore. Going against its traditional ally India's interests it has also supported the China-Pakistan Economic Corridor widely seen as a flagship project of Beijing's One Belt One Road initiative.

Thus Russia is making major inroads into Asia. The bilateral relations with many Asian countries saw an upswing in 2017 and the momentum continues in 2018. Russia needs to diversify its economy from its resource based selling to more innovative product selling. Asia is the right market and its enormous needs are matched by its increasing economic capability. Russia's geographical continuity in both the European and Asian landmass gives it a unique opportunity to benefit from both the sides. Asia is the new economic global fulcrum and Russia is just in the right position to increase its integration.

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