East Meets East: An Assessment of the Proposed Chennai-Vladivostok Maritime Corridor

Nivedita Kapoor and Gayathri Iyer
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ABSTRACT

In 2019, India and Russia announced their intent to connect the ports in their respective cities, Chennai and Vladivostok. One year on, the project remains only on paper. This paper explores the economic and strategic viability of this proposed maritime connectivity corridor. While not purporting to be a feasibility study, this analysis seeks to examine the potential benefits and pitfalls of the proposed link and its place in the Indo-Russia strategic partnership, both economically and strategically.

INTRODUCTION

The radical transformation of the world economy in the post-World War II period – driven by globalisation, trade, and technology – has underscored the role of connectivity. This has also had a commensurate impact on the political economy of connectivity itself in international relations, where the linkages forged are hardly solely economic in nature. The geopolitical dimension of connectivity projects is considered one of the driving forces for states to pursue policies that establish trade, investment and other commercial links. The economic benefits of increased connectivity are closely intertwined with geopolitical gains.

It is therefore hardly surprising that India and Russia in 2019 announced their intent to establish maritime connectivity between the ports of their respective cities, Chennai and Vladivostok—projecting it as both an economic and a geopolitical project. The Chennai-Vladivostok link, which did operate for a few years during the Soviet period,¹ is now once again being considered for revival.

The lack of connectivity between India and Russia is often blamed as one of the major reasons for their limited trade, which has for the past few years hovered around the US$10-11 billion level. The International North-South Transport Corridor (INSTC), launched in 2000 by India, Iran and Russia, is operational only in certain parts. Politically, India and Russia have remained trusted partners of the other. However, their economic relationship has not kept pace. In an effort to rectify this situation, the preparations for the 2019 summit focused on improving trade ties, with special attention to the Russian Far East. The announcement of the proposed Chennai-Vladivostok maritime corridor formed part of the same vision.
This paper examines the economic and geopolitical arguments being advanced in favour of the maritime link, in order to determine whether the potential benefits outweigh the challenges. As India and Russia are yet to conduct a feasibility study into the proposed corridor, this paper seeks to present a comprehensive examination of the potential gains from the project, as well as the challenges to its coming to fruition.

**The Proposed Chennai-Vladivostok Maritime Corridor: An Overview**

During the visit of PM Narendra Modi to Vladivostok in 2019 to attend both the Eastern Economic Forum (EEF) and the annual Indo-Russia bilateral summit, officials signed a Memorandum of Intent.
(MoI)\(^a\) on the ‘Development of Maritime Communications between the Port of Chennai and the Port of Vladivostok.’\(^2\)

The project aims to address the current lack of connectivity between India and Russia. At present, the two are linked through the European route, and goods take an average of 40 days to reach their destination.\(^4\) The proposed maritime route will ship goods from Chennai port to Vladivostok in 24 days.\(^5\)

No feasibility study has yet been conducted on the project, and neither the Russian nor the Indian side is willing to put a number on the expected economic benefits accruing via this maritime link. Nor has the timeframe for its operationalisation been finalised. Conceptually, the corridor has been envisioned with the twin objectives of promoting economic ties between the two countries, and taking a long-term view of the strategic situation in East Asia.

**THE ECONOMIC IMPERATIVE**

In 2018, India and Russia established a strategic economic dialogue to identify areas for cooperation to bring trade ties in line with their robust political and defence relations; these aspects include connectivity. Both sides agree on the factors that have contributed to sub-optimal trade: an absent private sector, poor logistics, decline of trade in local currencies,\(^6\) limited oil and gas imports from Russia, and a lack of clarity on avenues to increase Indian exports to Russia.\(^7\)

\(^a\) Only a memorandum of intent has been signed. This was followed by meeting of the working groups, which are currently looking at the cost and further modalities of a feasibility study.
Aiming to increase bilateral trade to US$30 billion by 2025, the India-Russia Inter-Governmental Commission-TEC in 2019 focused more on sectors of transport, energy, agriculture, industry, and space.\textsuperscript{9,a}\b

The Confederation of Indian Industry (CII) has identified trade in national currencies as an important component of boosting bilateral trade,\textsuperscript{10} and the 2018 India-Russia joint statement declared support for this mechanism.\textsuperscript{11} Russian officials note that increasing private sector cooperation in manufacturing of spare parts in the defence sector, and prospects for joint production for third countries can provide opportunities for furthering economic ties.

That India turned its attention to the EEF and that Russia invited India to invest in the Russian Far East (RFE) during the 2018 bilateral summit\textsuperscript{12} also points to the vision of strengthening economic ties by focusing on the Russian region.\textsuperscript{c} For Russia, this is part of its continued effort to make the region its window to the East, which remains economically backward but is rich in natural resources. Signalling its intent for increased investment in the RFE, India for the first time announced a US$1-billion line of credit\textsuperscript{13} for the development of the region and to help Indian companies establish their presence there.

\textsuperscript{b} Other measures being considered include accelerating Eurasian Economic Union (EAEU) - India Free Trade Agreement negotiations, removing customs and non-tariff barriers and encouraging investment in various sectors of the economy through participation in forums like the East Economic Forum (EEF), St. Petersburg International Economic Forum (SPIEF), Vibrant Gujarat etc.

\textsuperscript{c} Six priority economic areas have been identified for cooperation in this particular region - Diamond-processing; Petroleum and Natural Gas; Coal and mining; Agro-processing; and Tourism.
While the groundwork to improve trade ties in the RFE has been laid down, much of the actual work remains to be done. India and Russia will have to take active steps to make the maritime route economically beneficial. The Indo-Russian maritime trade remains at a dismal level. This is evident from the fact that by 2015-16, Russia did not figure in the top list of export destinations that were supplied via the maritime route. In the case of imports, the volume from Russia still remained low at 3,351,000 tonnes, putting Russia far behind other sources like the countries of the Middle East and ASEAN, North America, and South America, as well as Australia, New Zealand, and China.

The two sides in 2019 signed MoUs in sectors like mining, oil and gas and diamonds, and also developed a five-year roadmap on hydrocarbon cooperation. Dharmendra Pradhan, Minister of Petroleum, Natural Gas and Steel has emphasised India’s “keen interest in exploring the new sea route to source crude oil and LNG through Russia’s Arctic” which promises to lower cost and time involved in its transportation while also diversifying India’s imports.

The focus on natural resources – particularly energy – is unsurprising given that the export profile of RFE rests on this sector. Any prospective imports from the region in the medium term by India will also consist of similar products – oil, gas, coking coal, and timber, among others. The following paragraphs will examine the viability of the economic proposition via the maritime link focusing on two specific areas: Trade in Natural Resources and the Russian Far East.
A. Trade in Natural Resources

1. Crude Oil

Both India and Russia have been active investors in each other’s energy sector, but their export and import volumes have remained low. In recent years, efforts to rectify this situation have led to important developments in energy cooperation between the two nations. US sanctions on Iran and the tensions in the Middle East led to a fall in India’s energy imports from the Middle East to a record low of 60 percent from 65 percent in 2018. At the same time, imports from the US and Russia went up for India, the third-largest consumer in the world.\textsuperscript{16} While India only started importing oil from the US in 2017, by 2019 imports were at 184,000 barrels per day, which is an increase of four times as compared to 2018.\textsuperscript{17}\textsuperscript{,d}

Potential

India seeks to maintain diversified suppliers, which has led the oil ministry to secure supplies from Russia as well.\textsuperscript{18} It is yet unclear what quantum of crude would be imported via the eastern front. Negotiations are ongoing regarding an India-Russia long-term contract for supply of oil to India,\textsuperscript{19} which is expected to boost bilateral trade. Such contract, once signed, will give clarity regarding the involvement, if any, of the proposed eastern maritime route.

India, which owns a 49.9-percent stake in the Vankor fields in Siberia, does not import oil produced here, which goes to markets

\textsuperscript{d} During the first six months of 2019-20, the top suppliers of India of crude oil in order of their quantum of supply were Iraq, Saudi Arabia, Nigeria, UAE, Venezuela, US, Kuwait and Mexico.
in Northeast Asia. Through the ESPO pipeline, the main importer is China, followed by Japan and South Korea which purchase the oil via tankers through the port in Kuzmino Bay. While there is no doubt that China will remain the primary market for Russian oil and gas in the East, it needs to diversify its export markets.

India’s demand for oil is expected to increase from the current 4 million bpd to 10 million bpd by 2040. Indeed, it makes for an important market in Asia as Russia adds oil resources from Arctic to its export profile. In this regard, as an expression of its interest, India has in principle agreed to join Rosneft’s Vostok oil project in the Arctic that will use the Northern Sea Route (NSR) to supply crude oil to markets in Asia and Europe. By 2030, the crude in volumes being supplied from Vostok oil is expected to reach 115 million tonnes. As climate change makes navigation across the route possible for longer than ever before, Arctic resources will reach the Asian markets in the future, aided by nuclear-powered ice-breakers being developed by Russia to ensure year-round navigation.

Challenges

While there is an economic case to be made of the Chennai-Vladivostok maritime route, the crude oil refining capacity on India’s eastern coast remains limited: most of the oil refineries along India’s east coast are old and have been underutilised as most of India’s energy imports land on its western coast from the Middle East and Africa; moreover, Russian crude is heavier, with large quantities of sulphur which the old refineries are unable to adequately refine. India will have to keep the latter in mind as it works on its green goals. Only five of India’s 18 public-sector refineries are on the eastern coast and all the private refiners are
on the western coast, including the ones capable of dealing with Russian crude.\textsuperscript{25}

This was also reflected in the contract between Indian Oil Corporation Ltd and Rosneft for the import of two million tonnes of oil to India from Russia by the end of 2020. The deal will be directed through the port of Novorossiysk\textsuperscript{26} to the western coast of India.

The current refineries are drawing up plans for expansion (See Table 1). Of these, Manali and Nagapattinam are closest to Chennai port on the Eastern coast.\textsuperscript{e} They will still be inadequate, however, for Russian crude, given their specifications for refining Middle Eastern crude..

Table 1: Expansion of Existing Refineries

<table>
<thead>
<tr>
<th>Company</th>
<th>Location of the Refinery</th>
<th>Increase in Capacity, MMTPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>Barauni</td>
<td>3.000</td>
</tr>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>Guwahati</td>
<td>0.200</td>
</tr>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>Bongaigaon</td>
<td>0.350</td>
</tr>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>Mathura</td>
<td>1.200</td>
</tr>
<tr>
<td>Indian Oil Corporation Limited</td>
<td>Haldia</td>
<td>0.500</td>
</tr>
<tr>
<td>Hindustan Petroleum Corporation Limited</td>
<td>Visakhapatnam</td>
<td>6.700</td>
</tr>
<tr>
<td>Hindustan Petroleum Corporation Limited</td>
<td>Mumbai</td>
<td>2.000</td>
</tr>
<tr>
<td>Numaligarh Refinery Limited</td>
<td>Numaligarh, Assam</td>
<td>6.000</td>
</tr>
<tr>
<td>Chennai Petroleum Corporation Limited</td>
<td>Nagapattinam</td>
<td>8.000</td>
</tr>
<tr>
<td>Bharat Oman Refinery Limited, Bina</td>
<td>Bina, Madhya Pradesh</td>
<td>1.800</td>
</tr>
</tbody>
</table>

Source: Annual report, Ministry of Petroleum and Natural Gas\textsuperscript{27}

\textsuperscript{e} The Nagapattinam refinery is being completely rebuilt to cater to the needs of Bharat Stage VI fuels. The refinery is being built to cater to oil sourced from Iraq and Iran. The Manali refinery currently operates at full capacity and is known as one of the most complex refineries in India and is also built for Middle Eastern crude.
Meanwhile, Russian oil supply to Asia-Pacific that constituted one-third of its exports\textsuperscript{28} in 2019 was dominated by China\textsuperscript{29} through a network of pipelines.\textsuperscript{30} Russia has already displaced Saudi Arabia as China’s leading crude oil supplier, and Japan and South Korea are other important importers of crude oil in the region.\textsuperscript{31} The ESPO pipeline – whose one spur connects to China through Daqing, while the other at Kuzmino near Vladivostok services the rest of Asia – has been crucial for Russia’s oil export plans in the region. In the coming years, oil production from Sakhalin 1, Yamal-Krasnoyarsk region that has the Vankor oilfield (Indian oil companies have a 49-percent stake in the cluster), Irkutsk region and Sakha region\textsuperscript{32} will meet a greater proportion of Asian demand.

This pattern looks set to continue in the case of Arctic oil, as China has received one of the first few shipments via the eastern link of the Northern Sea Route. While this is still not a regular occurrence with Suez Canal dominating shipment of various goods, in 2019, cargo from Lukoil travelling from Murmansk to eastern China completed its journey in about 25 days.\textsuperscript{33} Thus, this route for Northeast Asia requires less in both time and cost, due to the use of smaller tankers.\textsuperscript{34}

However, when it comes to Arctic oil reaching Chennai via the same route, the total time would be around 40 days, which is much longer than what it takes to ship crude from Middle East and Africa. While the distance from Vladivostok – bringing supplies from Sakhalin and the Russian Far East – to Chennai indeed takes a shorter time, the Arctic is a different arena. A decision will have to be made on the use of the western NSR (which is operational throughout the year) via Suez Canal versus eastern NSR (only operational for six months currently) to transport any potential
Arctic oil in the future. This is important because high shipping cost has been identified as one of the reasons for limited Indian imports of crude from Russia when compared to supplies from West Asia.\(^{35}\)

The problem is not insurmountable, as was seen when India began importing crude oil from the US in 2017. The time taken was approximately 44 days, with the tanker leaving the Gulf of Mexico on 19 August and reaching the Paradip port in Odisha only on 1 October. The OPEC price war drove up the oil prices which reduced price differential between Brent (benchmark for west) and Dubai (benchmark for east) – making the crude profitable for Indian refineries even after adding the shipping costs.\(^{36}\)

In the case of Russia, Urals crude usually trades at a discount as opposed to Brent due to its high sulphur content,\(^{37}\) which increases the cost of its refining. In 2017, production cuts by key West Asian suppliers of oil to India led to an increase in imports from Russia as the price of Urals crude became profitable.\(^{38}\) In contrast, in July 2020, the Russian decision to comply with OPEC+ decision to limit supply has led its Urals blend to trade at a premium over Brent.\(^{39}\)

For the imports to be profitable for India, it will depend on the prevailing benchmark rates as well as negotiations over the long-term supplies that will determine the cost-effectiveness and willingness of Indian companies to import from Russia. When calculated alongside the time taken via the eastern and western route along with refining capacity, these factors will be fundamental in determining the potential of importing Arctic oil.

A possible solution for dealing with the pricing question lies in the possibility of a swap: Indian production from its fields in the
region goes to Northeast Asian consumers, and their imports from West Asia are used by India. Needless to say, these decisions will also depend to a large extent on India being able to recover its high economic growth rates that will fuel energy consumption and set the stage for increased oil imports.

**Analysis**

There is hardly any doubt that the potential exists in importing Russian crude from the RFE and Eastern Siberia through the eastern route. The question, however, of Indian refining capacity remains, as the government has yet to consider plans to build new refineries. Moreover, most of Russian exports to the East have till now been absorbed by the Northeast Asian market and Indian presence has been limited to making equity investments in the Russian oil fields.

While there are obvious benefits to diversifying India’s import profile, it might be pertinent to think beyond Chennai for refining the imported crude, given the current capacity on the eastern coast for refining. Bringing this crude to the western coast refineries that can process Russian crude might be a solution given that the distance from Vladivostok to India’s western coast is still shorter as compared to St. Petersburg to Mumbai via the Suez Canal. It would also not be much longer than the route from Port of Novorossiysk to Mumbai that is being used to import Rosneft oil. In the case of Arctic oil, the price Russia offers to make it profitable for Indian refineries will be a key consideration – and might not be completely dependent on the eastern route, as discussed above.

The Indian government is yet to give a benchmark figure on the expected amount of crude oil imports from Russian Far East or
Arctic, nor has it revealed plans for refineries on the eastern coast that can handle Russian crude. Any definitive answer regarding the true potential in this sector via the Chennai-Vladivostok route remains difficult to assess.

2. Liquefied Natural Gas

Qatar remains India’s key source of LNG imports primarily because its location allows its tankers to reach India’s western shores within three days. In 2019, India had two long-term contracts for the supply of 8.5 million tonnes of LNG from Qatar. Other key suppliers include Nigeria, followed by the US, Russia and Australia.

Potential

India’s LNG imports have grown swiftly in recent years, making it the fourth-largest LNG importer in the world.\(^f\) As LNG is cleaner, it is slowly becoming an important consideration for India as it attempts to meet its goals of reducing carbon emissions. As India plans to expand the use of natural gas, the LNG import terminal capacity is expected to grow to 52.5 million tonnes by 2024 as new facilities are planned in Kakinada in Andhra Pradesh, Dhamra in Odisha, Jaigarh in Maharashtra, and Chhara and Jafrabad in Gujarat.\(^{40}\) Two of these are on the eastern coast – Andhra Pradesh and Odisha. At present, consumption is concentrated on the western coast due to the existence of relevant import infrastructure\(^{41}\) and a better developed network of pipelines.

\(^f\) After Japan, China and South Korea. India’s status as a developing economy makes it attractive as a potential importer for most LNG-exporting nations.
In a welcome development, the eastern coast got its first LNG import terminal at Ennore in Tamil Nadu in 2019. Built by the Indian Oil Corporation, with a capacity of 5 million tonnes per annum (MTPA), the terminal has customers for 2 MTPA of its capacity. There are also plans to connect it to existing pipelines in Andhra Pradesh to link with various demand centres in the region. In recent developments, Novatek has signed an MoU with India’s H-Energy Global Ltd to build LNG terminals and sell LNG and natural gas to India, Bangladesh and other markets.

In 2018, Gail India Limited signed a US $2-billion per annum contract to source 2.5 MTPA of LNG from Gazprom on a long-term basis and Russia was added as a new source for India’s long-term needs.

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g H-Energy has terminals in Jaigarh (Maharashtra), Kakinada (Andhra Pradesh) and Haldia (West Bengal). Another private sector company, the Philippines-based Atlantic, Gulf & Pacific Company (AG&P) started setting up an LNG import facility at the Karaikal Port in Puducherry and expects to begin operations in 2021.
LNG imports in 2018. The resource-rich country, with a long experience in the oil and piped natural gas market, is a relatively new player in the LNG export market. In the past decade, the sector has received particular attention, with Russia having the potential to become one of the world’s leading suppliers of LNG by 2030 – a status enjoyed today by Qatar, Australia and the US, each of which produce more than 100 MTPA of LNG.
Prioritising the Russian Far East and Siberia, Sakhalin-2 became Russia’s first LNG plant\(^h\) with a capacity of 10 million tonnes per year.\(^49\) It is important to the Asia-Pacific, supplying the markets of Japan, South Korea, China and Taiwan.\(^50\) While India is yet to source LNG from Sakhalin, the potential for imports via the eastern route lies in these fields. If the experience of existing LNG imports from Russia is anything to go by, the resource-rich country is willing to offer attractive prices\(^51\) to increase its footprint in the lucrative Indian market.

In the Arctic, Novatek has succeeded with the Yamal LNG project (2017) and will also operationalise the second plant, Arctic LNG-2 in 2022 despite western sanctions. Its focus is on the Asian market, specifically the Northeast Asian countries.\(^52\) In fact, Arctic is the key to Russian aims to gain a 20-percent share in global LNG market by 2035, where Novatek will play a key role in raising the total capacity to 70 MT. The Northern Sea Route will also be crucial in ensuring that Arctic LNG reaches Asia. The present conditions in the Arctic Sea means that till year-round navigation of the route becomes possible, it is operational towards the east for six months, while for the remaining half of the year, Yamal LNG would have to be shipped westwards to European markets.\(^53\)

Russia plans to increase gas exports to the Asia-Pacific by 2035 to 75-135 bcm, out of which 64-115 bcm will be to markets in Northeast Asia.\(^54\) The Northeast Asian countries, apart from their demand, also remain a source of capital and high technology for

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\(^h\) Till 2016, it remained Russia’s only LNG exporting project – launched with two liquefaction and purification facilities - and a third such facility is scheduled to be built in 2021.
Russia. However, stagnating demand in Japan and South Korea is an area of concern and Russia would like to diversify its export markets for its gas supplies in the east. Meanwhile, it is clear that Moscow has enough gas resources available for the Asia-Pacific market. If it keeps moving ahead as per the planned projects outlined, it will also be able to break into the list of top LNG producers. In order to make the Russian pivot to the east more viable and diversify beyond Northeast Asia, efforts are ongoing to increase engagement with South Asia and Southeast Asia, including India. India’s gas consumption is expected to reach 175 bcm by 2040.

Challenges

India’s plans of increasing its share of natural gas in the energy market from 6 percent to 15 percent by 2030 would require a doubling of the average growth rate of natural gas consumption, which in turn requires the Indian economy to grow in double digits and create targeted policies and incentives. Indeed, LNG remains an expensive fuel in India compared to other available alternatives and the country lacks efficient infrastructure especially in the southern and eastern regions, where pipelines are not integrated enough to reach the main demand centres. The share of natural gas in India’s primary commercial energy basket went down to 6.2 percent from 9.4 percent between 2012 and 2018. In the same period, the use of natural gas for gross electricity generation fell from 10 percent to 4 percent of gross generation. This situation will need to be addressed as the EIA estimates that power generation and industrial sector will drive most of the demand for LNG in India.

As noted earlier, India’s regasification terminals have been concentrated on its western coast, as most of the domestic needs
have been sourced via countries nearer to those regions. The challenge to scale up the pipeline infrastructure and ensure that all regasification plants work at their optimum capacity will have to be addressed as well.

**Table 2: Regasification terminals in India**

<table>
<thead>
<tr>
<th>Location</th>
<th>Owner and Operator</th>
<th>Regas Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dahej (Gujarat)</td>
<td>PLL</td>
<td>17.5</td>
</tr>
<tr>
<td>Hazira (Gujarat)</td>
<td>SHELL</td>
<td>5</td>
</tr>
<tr>
<td>Kochi (Kerala)</td>
<td>PLL</td>
<td>5</td>
</tr>
<tr>
<td>Kochi (Kerala)</td>
<td>GAIL</td>
<td>1.3</td>
</tr>
<tr>
<td>Mundra (Gujarat)</td>
<td>GSPC LNG Ltd</td>
<td>5</td>
</tr>
<tr>
<td>Ennore (Tamil Nadu)</td>
<td>Indian Oil</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Capacity (MMTPA)</strong></td>
<td></td>
<td><strong>38.8</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Petroleum and Natural Gas

The Russian LNG supplies to India that began in 2018 also reached the western coast Dahej terminal after a price renegotiation. This resulted in LNG priced at favourable rates for India, with the source having been changed by Gazprom from Schtokman project in the Barents Sea to the Yamal Arctic project. In sourcing the Arctic gas, there is benefit in having the western NSR operational throughout the year; the eastern NSR is currently available only for six months annually. Further, as infrastructure on the Indian western coast for LNG is more developed, and since the distance of Russia Arctic LNG via the east routes will not offer the comparable shortening of distance as is the case when imports are made from Russian Far East/Vladivostok, it will be difficult to argue to shift these imports eastwards. If the eastern route has to be used, India will have to look at Sakhalin LNG, while considering its capacity to absorb the imports based on economic growth trends. Moreover, like crude oil, shipping the Far Eastern LNG to
the western coast might also offer competition to the eastern coast in the absence of appropriate infrastructure.

Till now, Russia’s LNG exports to the Asia-Pacific have been oriented towards Northeast Asia, primarily China – both from the Far East and Arctic. This will have to change with resources carefully dedicated to markets in Southeast Asia and India. It was only in 2019 that plans were announced regarding Sakhalin 1 building a liquefaction plant of its own. Till now, the absence of this plant meant that despite Indian investment, the gas could not be transported to India as LNG.

Analysis

Despite the dampener on Indian growth due to the COVID-19 pandemic, the need of diversified imports with an eye on the future cannot be denied, especially given that the country will remain an importer of LNG. India’s plans to expand infrastructure for LNG on the eastern coast make Russian imports important. However, the challenges highlighted in this section remain, and the western coast offers stiff competition to the eastern coast in attracting LNG imports. Compounding the inadequacy of infrastructure is the COVID-19 pandemic and its impacts on the global economy. India’s struggling economy is grappling with its all-time low demand and consumption rates alongside a worldwide oversupply of energy at marked low rates. Recovery from COVID-19’s economic fallout could lead to years before an increase in the infrastructure support for LNG is considered in India.
3. Other Natural Resources

India is also betting on importing coking coal from RFE to increase bilateral trade. In 2018-19, India imported 51.83 MT of coking coal out of its total demand of 58.37 MT. Estimates suggest that this demand for coking coal will double in the coming decade due to plans to increase production of steel, almost all of which will continue to be imported, making RFE an attractive option.

To this effect, an MoU was signed between Coal India Ltd and Far East Investment and Export Agency during the 2019 India-Russia bilateral summit in Vladivostok. Agreements were also signed in areas of mining of strategic minerals, diamond-processing, and coal. It remains to be seen how many of these MoUs will translate to projects on the ground, given the challenges that the RFE presents.

B. Russian Far East

India and Russia have identified the areas of diamond-processing, petroleum and natural gas, coal and mining, agro-processing, and tourism for cooperation in the resource-rich Russian Far East. At present, Indian companies in the region are engaged in the sectors of diamond cutting, tea packaging, coal mining, and oil and gas. There is also a proposal to send Indian skilled workers on a temporary basis to RFE, as noted in the 2019 India-Russia Joint Statement. In a first, India announced a US$1-billion line of credit for a region in a foreign country to help Indian companies establish themselves in the Far East.

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India’s leading supplier is Australia, with a market share of 71 percent, followed by the US and Canada.
Potential

In recent years, the Russian government has turned its attention to the region, driven by its ‘pivot to East’ policy. Investments and governance have focused on promoting the resource-rich region among both domestic and foreign players. While the latter still remain sceptical, RFE has registered a growth higher than the national average. This has also led to the promotion of ‘state-driven investment’ in the region and some improvement in its socio-economic situation. The prospect of a China-Mongolia-Russia corridor of the Belt and Road Initiative connecting to the Trans-Siberian network has been welcomed, as it ties in to the Russian interest in expanding the capacity of the railway network and improving the market access of the RFE.

Moscow has also taken steps to attract a diversified portfolio of investors to the region, as witnessed in its annual Eastern Economic Forum summits that began in 2015. India was first represented at the ministerial level at the forum in 2017 and in 2019 PM Modi was the chief guest at the event. As mentioned earlier, Indian companies are already present in the region in sectors including coal, diamond, tea and oil and gas. Some of the prominent players include KGK Group that has a diamond-cutting and polishing factory in Vladivostok, TATA Power which is engaged in developing coal deposits in Kamchatka, SUN Gold Eurasia in gold mining, and Jaytea with its tea packaging factory in Primorye territory. ONGC Videsh through its investment in Sakhalin-1 is also a player in the energy sector and has extended its presence through its investment in the Vankor cluster.

In 2019, during the visit of PM Modi to Vladivostok, a number of MoUs were signed focusing on the energy sector. As of
now, industry associations like CII and FICCI are attempting to introduce the opportunities available in the RFE to more Indian entrepreneurs. Meanwhile, the Far East Investment and Export Agency’s office has been set up in Mumbai to promote trade ties between India and the Far East. FICCI has identified the areas of Agriculture and Agri-processing, Timber, Oil & Gas/Renewables, Minerals & Mining, Tourism and Pharmaceuticals as having potential for cooperation between India and RFE. Other areas of future cooperation include space, energy, diamond and defence production.

Challenges

Despite its rich natural resource base, RFE remains a difficult area for business mainly due to its relative economic backwardness compared to the western part of Russia. There are various impediments to business in the region, including lack of connectivity, shortage of labour, adverse climate, unfavourable investment climate, and limited infrastructure. The overall stagnation of Russian economy itself and the “lack of dynamism in its pivot to east” have also dampened its ability to improve its regions. In this context, the domestic economic growth in Russia’s eastern territories also becomes a crucial factor in determining the viability of the route, if it is to absorb any prospective Indian exports via the maritime link.

In 2019, based on data from the Russia's Federal Customs Service, the RFE only contributed 6.8 and 3.4 percent to the overall export and import in the country. The connectivity projects of the RFE – including the Primorye 1 and Primorye 2 transportation corridors – have had limited success, owing to low
cargo movement despite their link to China, and partly also because of undeveloped infrastructure. The western sanctions on Russia following the 2014 Ukrainian crisis have also had a negative impact on foreign investment in RFE, wherein western investors were the major players. Russia has found it difficult to find alternate investors from Asia who could compensate for the loss, further impeding prospects for economic development.

During PM Modi’s visit to Vladivostok in 2019, he announced a US$1-billion line of credit for the RFE, the modalities of which are still being worked out. In addition to the history of problems that the RFE faces in terms of getting investments in the region, the CII notes that the region remains fairly new to Indian businesses. While efforts are being undertaken to raise awareness and present the opportunities it offers, it remains to be seen if Indian private sector will decide to take the plunge or it will once again be a story of government-to-government cooperation that has largely dominated Indo-Russian trade – with less than desirable results. In fact, before the 2019 summit, the RFE figured “marginally” in Indo-Russian relations.

Analysts have observed that the MoUs signed in 2019 reflect not only “poor awareness of the Russian business environment”, but also a distinct ‘bilateral caution’ regarding progress in the region due to factors mentioned earlier. In view of the global recession resulting from COVID-19, any enthusiastic response in the short-term will be an even more difficult proposition. Meanwhile, questions remain on whether India can export enough goods via the eastern seaboard to make the route that side profitable. Also, if the limited market size of the RFE would necessitate transportation of goods to more densely populated Western part of Russia from RFE,
it will be a proposition that is both costly and long. It would also negate the entire purpose of introducing a shorter maritime route. In that case, would Indian businesses prefer to produce locally for consumption in Russia and for nearby markets of Northeast Asia?

Analysis

While the RFE is one of the most economically backward areas of Russia, its growth will come from export of natural resources. China and South Korea are the main trade partners of the RFE, accounting for 27 percent and 25 percent, respectively, of the total commodity turnover. While the RFE exports are diversified among the three Northeast Asian states, its imports are heavily dominated by China at 45 percent, mainly consisting of machinery and equipment, and metals. India has a three-percent share in exports of RFE, occupying the fifth position on the list but does not figure in the top five in the case of imports. There is potential for India to import coking coal, as well as crude oil and LNG through fields in the region.

However, the Indian side remains at a loss in terms of what it would like to export to the Far East from its eastern coast. Its current leading exports to Russia – pharmaceutical products, electrical machinery, mechanical appliances, organic chemicals, coffee and tea, vehicles, iron and steel – do not necessarily need the Chennai-Vladivostok route. This will make it difficult to justify a two-way economically viable trade via the proposed maritime link.

Nevertheless, this does not preclude the importance for India of importing natural resources from the region as well as seeking profitable ventures in the RFE by Indian companies. In this regard, engaging third parties like Japan and South Korea in tripartite
projects would help overcome the limitations that India and Russia have faced in furthering cooperation in the region. Whether it is utilising the opportunities offered for foreign investment in the region by the Russian government at low cost, looking at newer opportunities in agriculture and pharmaceuticals, or encouraging Indian private sector companies to invest in RFE with government backing – all such ideas should be put into motion for improving economic ties between India and the Far East while also benefitting the broader Indo-Russian trade relationship.

**EXPLORING THE GEOPOLITICAL ANGLE**

While economics forms one part of the equation for a connectivity project, the geopolitical underpinnings of the Chennai-Vladivostok maritime corridor are critical as well.

*Potential*

In recent years, India and Russia have pursued policies with a special focus on East Asia. In the case of India, it has been reflected in the move from its Look East policy to Act East as well as its engagement with the concept of the Indo-Pacific. For India, a Chennai-Vladivostok link adds another dimension to the Indo-Pacific as it seeks to convince Russia of its vision. New Delhi has noted that its vision is not directed against any country and it does not see the region in form of “a strategy or as a club of limited members.”

Russia, which announced its pivot to the East, has now added the Greater Eurasian initiative to the mix. The latter is envisioned to include an “integration framework from Atlantic to the Pacific” as a “common geopolitical space,” suggesting a growing ambition...
 beyond just the continental dimension to include maritime links as well. Russian President Vladimir Putin has noted the importance of connecting the ports of Northern Sea Route (NSR) in Arctic with those in Pacific and Indian Oceans\(^{82}\) to give an impetus to the maritime dimension of its Greater Eurasia vision. Russian officials note that the former superpower would like to work closely with India to improve both connectivity and bilateral relations. They also believe that a synergy can be found with India’s Act Far East policy, in which India has expressed an interest in the RFE.

Indeed, PM Modi noted in 2019 that the cooperation will make the RFE “a confluence of the Eurasian Union on one side and the open, free and inclusive Indo-Pacific on the other.”\(^{83}\) In an attempt at convergence, India has called for “harmonizing the interests” of India and Russia in the Pacific and Indian Oceans,\(^{84}\) where the proposed Chennai-Vladivostok maritime link will be important.

If one keeps the long-term perspective in mind while eschewing short- to medium-term constraints, Vladivostok has potential for India in the context of Arctic and the Northern Sea routes.\(^{85}\) The idea of a ‘geo-political Connectivity Arc’ from Chennai to Vladivostok to the ‘northern tip of the Arctic’\(^{86}\) has already been floated. Russian officials note that a role for New Delhi in NSR is a welcome development, including as part of infrastructure development in the area. This is important as Russia becomes increasingly concerned about the role of China in the Arctic which has declared itself to be a near-Arctic state. The melting of ice along this route has already heated up the competition within the Arctic Council, which earlier consisted of the five coastal states of Russia, Norway, Canada, Denmark and the US but has now been expanded to include as observers China, Japan, South Korea, Singapore, and India.\(^{87}\)
China-made icebreakers Snow Dragon-1 and Snow Dragon-2 have started plying along the Northern Sea Route on trial runs as recently as July of 2020, as it becomes an important importer of resources from Russia via the NSR and looks to establish a shorter trade route to Europe. On the other hand, Russia prefers to press into service its own icebreakers to regulate navigation on the route. The drying up of investment from the west has led to Russia allowing China to invest in the upstream sector in the Arctic after 2014 but it has taken simultaneous steps to have a diversified portfolio of investment partners. While the need for Chinese investment for the development of the Arctic cannot be dismissed, there is potential for India via engagement with other like-minded countries in limiting the rising power's presence in the Arctic (via its planned Polar Silk Route) – including Singapore, Indonesia, South Korea and Japan.

A successful engagement in these areas – apart from strengthening the bilateral relationship – will also allow Russia to diversify its relations in East Asia beyond China, which has not been its strong point in the post-Soviet period. It is in Indian interests to ensure Russia has some space for strategic manoeuvring with regard to China and vice-versa. The maritime corridor will also further increase India’s movements in the South China Sea and the Indo-Pacific. India and Russia are also both open for economic cooperation in the region with third countries: South Korea and Japan could become partners especially in the RFE and be part of the broader maritime connectivity – with its resultant geopolitical gains in the context of a rising China. Building additional linkages between two time-tested partners in a volatile region is a logical development.
Challenges

While the geopolitical argument for establishing the maritime link has been established in the earlier sections, the project is not without its challenges in this domain. The most critical is the changing international order characterised by an intensifying US-China rivalry, altering the geopolitical balance in Asia and beyond. Indo-Russian ties have already had to grapple with questions of their relations with great powers – and the potential impact of these on their strategic partnership. Nowhere is this question more relevant than in the geographical space of East Asia.

In the case of India, there has been an increased sense of concern about the future of Chinese power in the region in recent years. This has led to progressively more engagement with other stakeholders in the region, reflected most prominently in promotion of the Indo-Pacific and the Quad (US, India, Japan and Australia). While these countries have presented different visions of the Indo-Pacific, with the US openly declaring China to be a “revisionist power” while others taking a more balanced view, the anxieties about the rise of China can hardly be denied. Its increasingly aggressive stance on the South China Sea has made other regional states concerned, even as they are wary of antagonising the rising power. The recent Sino-Indian border clashes and the subsequent reaction from New Delhi have led experts to believe that a fundamental rethink of the bilateral relations is underway.

In contrast, Russia’s ties with China have grown closer, driven in the post-2014 period by a breakdown of relations with the West. Their common interests in the economic and strategic domain have led to a flourishing of Sino-Russian ties, with bilateral trade
touching US$100 billion in 2018. Despite the asymmetric nature of the relationship, which is even more visible in the case of Asia, they have been successful in maintaining an “essential equality in their relationship.”

China, recognising the value of partnership with Russia despite its limited economic clout, has nurtured the ties carefully. They also have convergences on several regional and global issues.

Given the state of its ties with the West and a growing dependence on China, Russia will be loath to go against its strategic partner at this time. Analysts have noted that the US policies and sanctions are further driving Russia into China’s hands. Moscow has also expressed its reservations about the US strategy on Indo-Pacific, arguing that it seeks to contain China, even as it acknowledges that India and ASEAN do not take a similar position. Thus, India will find it difficult to convince Russia to become part of its Indo-Pacific strategy.

When it comes to the Arctic, India’s ability to make large-scale investment remains limited and apart from scientific, technological and environmental agenda, New Delhi is yet to spell out a comprehensive policy for the region. The investment in Vostok oil signals increased interest in the region but an effective formation of coalitions to overcome its own weaknesses without encroaching upon the interests of Arctic member states has not yet been envisioned. Meanwhile, India will also have to contemplate the long-term consequences of the NSR opening up that would significantly reduce time taken for exports from Northeast Asia to reach Europe and the US – much to the detriment of Southeast Asia and India.
In the case of Russia, sustained weak economic presence and a limited power projection capability in the region has constrained Russian outreach to key regional players including Japan, South Korea, India and ASEAN; with bilateral ties leaving a lot to be desired. This has been further complicated by the relationship these regional powers share with the US, especially in the context of the ongoing flux in the regional order. The antagonistic relations with the US have not helped in a region where the established power is entrenched and is seen by the regional powers as a security hedge against the rising power.

The enunciation of a ‘Greater Eurasia’, without any accompanying policy measures to realise the vision, has also impeded its efforts to address the existing imbalance in power with China. It has also affected its attempts to build a more diversified regional strategy, leading to mixed results at best.

Analysis

In a world where the economics and geopolitics of connectivity go hand-in-hand, neither India nor Russia can neglect the necessity of improving their bilateral linkages, especially given the rapid strides that major powers have taken in this direction – most recently seen in China’s BRI. Not only do the two countries need better connectivity to improve their economic relations, their geopolitical interests are also tied with further strengthening of their bilateral relationship at a time when the world order is evolving and a new structure is yet to emerge. Both sides have also demonstrated an interest in deepening their relationship.

The geopolitical rationale for establishing the Chennai-Vladivostok Maritime Route is that increased connectivity will
bring long-term benefits. The two sides are making efforts to synergise their policy visions, further their strategic partnership, and open up possibilities of cooperation with third-parties.

Yet, while there is potential for the future, the contradictions are real and present today. The key issue is that the geopolitical landscape has changed in East Asia since the maritime link was announced in 2019. The COVID-19 pandemic has heightened the US-China rivalry, as described in the previous section. If the China tilt in Russian foreign policy and the “deepening” of India’s ties with the US become more acutely entrenched, it would also influence prospects of strategic cooperation in Asia. Especially in the case of Russia, if it is unable to upgrade its relations with other regional powers, it would have to deal with an overdependence on China in Asia, limiting its room for manoeuvre. While India and Russia do not wish to antagonise each other, and coordination in East Asia in the long-term is beneficial, it will be an uphill task for the two strategic partners to synchronise their policies in the region given the diverging nature of their respective engagements with the US and China at a time of rapid changes in the world order.

In the short to medium term, the geopolitical challenges will continue to plague this maritime link. However, the long-term rationale for helping Russia diversify its regional ties and not adding to Chinese strategic strength remains relevant. So does finding a meeting point between Greater Eurasia and Indo-Pacific, as well as building synergies with third parties in the RFE. This would also resonate with the Russian policy of pursuing a multi-vector foreign policy to maintain strategic autonomy.
Indeed, it is the uncertainty regarding the shaping of the future order that necessitates building closer relationships with various regional stakeholders, including Russia. However, it is difficult to put the Chennai-Vladivostok maritime corridor at the centre of such a vision.

CONCLUSION

This paper has established the importance of resource imports from the Russian Far East as well as the geopolitical interests in engaging more in the context of East Asia. However, the existence of “two-way trade so that ships are laden with goods on both journeys, back and forth”\textsuperscript{104} – critical for the link to be successful – is yet to be established. For that, one would have to wait for the two governments to commission a feasibility study on the economic prospects of the corridor.

The study must answer critical questions including the exports of India to the RFE via the eastern sea-board, expected imports of oil and gas from the RFE, the cost of establishing new crude oil refineries on the eastern sea-board, capacity of regasification terminals to absorb Russian LNG/need to establish new ones, ways to encourage private sector participation in the project, as well as prospects of third-party cooperation in improving the link’s economic viability. Lingering questions also remain over domestic economic development of the RFE, the concept of Indo-Pacific, Russia-China relations, and US-China rivalry. Given their impact on the potential fortunes of the proposed maritime corridor, it is clear that the imperative is a long-term view of the situation.

This paper recommends increasing Indian business presence in Russia’s Far East. It also suggests importing natural resources
and fostering strategic cooperation with Russia in East Asia without the trappings of the Chennai-Vladivostok project for the moment. Given India’s poor track record in realising connectivity initiatives and the sheer number of challenges involved in the case of this particular link, it would be prudent to be realistic about the prospects and instead focus on specific areas of cooperation.

Plenty of opportunities exist for India and Russia to come together to advance their national interests in East Asia, even without a maritime link being at the centre of it, at least in the near future. Once the process of engagement picks up pace and sufficient level of engagement has been achieved, the idea of establishing a maritime link can be revisited. ORF

The authors thank Lydia Powell (Distinguished Fellow, ORF), the Confederation of Indian Industries, and the Embassy of the Russian Federation in India for their valuable insights into different aspects of this paper. Their comments and explanations went a long way in clarifying for us the issues being dealt here. Any shortcomings in the paper solely belong to the authors.
ENDNOTES

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