

# MP-IDSA

## *Issue Brief*

# India–Russia Relations and India's Act Far East Policy

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## **S***ummary*

The India–Russia bilateral partnership can be propelled further by exploiting opportunities for cooperation in Russia's Far East in energy, ship-building, aviation, tourism among other sectors. India will continue to pursue its relations with Russia from its strategic and national security perspective rather than from Western/European geopolitical frameworks and narratives.

## Introduction

India–Russia bilateral relations have remained intact despite global geopolitical upheavals. Bilateral trade between both the countries reached US\$ 65 billion in 2023.<sup>1</sup> India’s increased crude oil imports from Russia has been one of the primary reasons for increase in trade figures. Despite pressures of Western sanctions, Indian policy-makers have been vocal regarding India’s national interests and have consistently emphasised that Russia remains one of India’s important strategic partners.

India–Russia bilateral partnership encompasses multiple aspects ranging from trade, connectivity, defence, science and technology, nuclear and space issues to name a few. Over the years, hydrocarbons have emerged as an important component in bilateral trade.<sup>2</sup> Russia, despite multiple challenges to its shipping fleet, has enabled consistent supplies of hydrocarbons to India at a discounted price and other favourable conditions. The onset of Ukraine–Russia crisis though has limited the scale and scope of India–Russia partnership. The Brief highlights new areas of possible cooperation with Russia. Russia’s Far East offers immense potential in some new areas that could take the bilateral partnership to new highs.

## India Act Far East Policy

India’s ‘Act Far East Policy’ as outlined by Prime Minister Narendra Modi in 2019 could become a torchbearer in propelling India–Russia partnership. At the 5<sup>th</sup> Eastern Economic Forum at Vladivostok in 2019, Prime Minister Modi announced US\$ 1 billion line of credit for development of the Russian Far East. Modi emphasised that both India and Russia share a common goal when it comes to development of Russian Far East and asserted that the region could play an important role in further diversifying India–Russia relations from trade, connectivity, resources and other strategic perspectives. He highlighted that Vladivostok could become India’s springboard in North East Asia market.<sup>3</sup>

Since the launch of India’s Act Far East Policy, several positive developments have taken place. These include those related to new transport corridors like the Northern Sea Route (NSR) as well as the Eastern Maritime Corridor (EMC) and training of

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<sup>1</sup> Rahul Trivedi, **“India-Russia Trade Hits Record High, Surging to \$65 Bln in 2023”**, *Sputnik India*, 20 February 2024.

<sup>2</sup> **“Press Conference of EAM Dr. S. Jaishankar with FM Sergey Lavrov of Russia”**, Ministry of External Affairs, Government of India, 27 December 2023.

<sup>3</sup> **“Translation of Prime Minister’s Speech in Plenary Session of 5th Eastern Economic Forum”**, Press Information Bureau, Prime Minister’s Office, 5 September 2019.

Indian seafarers for Polar Operations in Russian Far East universities.<sup>4</sup> There still remains tremendous opportunities in several new and existing areas that need serious consideration from both the sides.

### ***Oil and Gas***

Exits by companies from Russian oil and gas field as a result of Western sanctions presents excellent opportunities for India to make long-term investment in Russian oil and gas field in the Far East region. Despite consistent push for transitioning to renewable resources, estimates suggest that India’s requirements for hydrocarbons to sustain its growing population and expanding industrial base are going to witness a significant rise in the near future. As per the International Energy Agency (IEA) report 2024, India’s oil imports by 2030 are expected to reach 5.8 million barrels per day.<sup>5</sup> Other estimates note that despite global transitions to renewable sources of energy, global demand for oil by 2050 would still remain consistent to around 100 million barrels per day. These estimates therefore suggest that India’s refining capacities to sustain its own demands and to cater to the global orders of refined crude would significantly increase.<sup>6</sup>

In order to maintain consistent long-term supplies of crude oil, it is important for India to diversify its options. Instabilities in West Asia presents another reason for India to diversify its energy procurement sources. India needs to consider exploring opportunities for new long-term gains via direct stake purchase route from Russian energy projects in the Far East. The Oil and Natural Gas Corporation (ONGC) Videsh Limited maintains a 20 per cent stake in Russia’s Sakhalin-1 project located in the Far East region. ONGC Videsh and many other Indian oil exploration and exploitation companies have required expertise in the extraction of hydrocarbons from Russian fields operating in extreme temperatures.

Sakhalin-2 earlier was a consortium of Gazprom (Russia), Shell (US-based subsidiary of Royal Dutch), Mitsui & Co. (Japan) and Mitsubishi Corp. (Japan). Post Shell’s exit from the project, Gazprom acquired its 27.5 per cent stake and now the Russian and Japanese companies are the sole stakeholders in the project.<sup>7</sup> There were initial reports of Japan’s possible exits from Sakhalin-2 as a result of continued Western pressures, but it retained its stakes in the project to cater to its

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<sup>4</sup> **“India and Russia Explore Northern Sea Route (NSR), Eastern Maritime Corridor (EMC) in an Effort to Widen Maritime Cooperation”**, Press Information Bureau, Ministry of Ports, Shipping and Waterways, Government of India, 13 September 2023.

<sup>5</sup> **“Indian Oil Market Outlook to 2030”**, International Energy Agency, p. 11.

<sup>6</sup> *Ibid.*, p. 10.

<sup>7</sup> Deep Kaushik Vakil, **“Gazprom’s Unit Buys Former Shell Stake in Sakhalin Energy for \$1 Billion”**, *Reuters*, 26 March 2024.

energy security needs.<sup>8</sup> Any opportunity either from Russian or Japanese side of possible stake sale in Sakhalin-2 could be worth considering for India’s long-term energy security. The ongoing progress on Chennai–Vladivostok corridor in terms of enhancing shipping traffic could be supplemented through such new partnerships that would also be fully in line with India’s Act Far East Policy.

### **Coal**

As India’s demand for power due to increasing population and industrial growth is rapidly increasing, the consumption of coal in its energy mix is bound to witness a significant increase. Even the most cautious estimates put forward at ‘Coaltrans India Conference’ in February 2024 in Goa note that India’s coal demand is expected to reach 1.5 to 1.9 billion metric tonnes by 2030.<sup>9</sup> Despite India’s persistent focus towards renewable sources of energy, its coal requirements are expected to witness an addition of 300 million tonnes in the next six years (25 per cent increase) to its current requirements of 1.23 billion tonnes.<sup>10</sup> In 2023–24, Russia supplied India with 15.1 million tonnes of coal that accounted for around 21 per cent to India’s total global coal imports of 73.2 million tonnes. Russia’s lower prices of coal as compared to other global suppliers needs to be tapped further and new opportunities for securing India’s long-term coal demands could be worth exploring in Russia’s far East.

Russian coal mines located in Taymyr Peninsula have ‘anthracite’ coking coal which is considered as one of the highest qualities of coal used in steel and aluminum industry.<sup>11</sup> Coal India and other related companies could consider venturing into new or expanded partnerships with entities such as ‘Egla mines’ in Sakha Republic and ‘Sakhalin coal mine’ in Russian Far east.<sup>12</sup>

### **Diamond Industry**

The European Union (EU) and G7 states’ (Canada, France, Germany, Italy, Japan, the UK and the US) decision of banning imports of Russian rough diamonds via third countries poses serious concerns for India’s diamond industry. Russia is the world’s biggest producer of rough diamonds by volume and is the biggest source of raw material for India’s polished diamond industry primarily concentrated in Surat,

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<sup>8</sup> Vandana Hari, “[Japan Should Stick with Russia's Sakhalin-2 Gas Project](#)”, *Nikkei Asia*, 31 August 2022.

<sup>9</sup> “[India's Coal Sector Sees Huge Leaps in Output and Demand](#)”, *Energy World*, 29 February 2024.

<sup>10</sup> Ibid.

<sup>11</sup> Toby Woodall, “[Russian Coal Miners Eye Greater Share in Indian Market](#)”, S&P Global, 6 November 2019.

<sup>12</sup> Debjoy Sengupta, “[Coal India Signs MoUs with Russia for Coking Coal](#)”, *Energyworld.com*, 4 September 2019.

Gujarat. Estimates suggest that out of every 10 diamonds in the world, around nine are cut and polished in Surat, and then exported to global markets. Diamond polishing industry provides employment to around 8 lakh people in India and with PM Modi’s inauguration of 7.1 million sq ft of floor office building for Surat diamond bourse in December 2023, there are high expectations of addition of 1.5 lakh more jobs to the Indian diamond industry.<sup>13</sup>

The EU-G7 states’ decision to impose sanction on Russian diamonds has resulted in significant job cuts in India and the impact could be much more if timely measures are not taken.<sup>14</sup> External Affairs Minister S. Jaishankar discussed this issue with Theodora Gentzis, Secretary-General of the Belgian Foreign Ministry in the past, which also remains severely impacted by this EU-G7 decision of ban of rough diamonds as 90 per cent of world’s diamond trade passes through Antwerp.<sup>15</sup>

As per the EU-G7 sanctions, present ban has been imposed on import of all rough diamonds above 1 carat, but by September 2024 these states plan to ban all Russian diamonds above 0.5 carat. In an attempt to further streamline global diamond trade, there are plans of enhancing rigorous certification measures from G7 countries to depict the source of origin of these diamonds.<sup>16</sup> It needs to be highlighted that despite all these measures, there still pertains doubts regarding the credibility of such sanctions imposed on Russian diamonds as the past experiences show that despite strict enforcement measures such as ‘Kimberly Process’ to stop blood diamonds trade from Africa, these still found their ways to reach international markets.<sup>17</sup>

Presently as well, there are debates on whether these EU-G7 sanctions would become ineffective over time and would only disrupt existing supply lines of diamond trade in which India and Belgium play a crucial role. India therefore needs to be persistent regarding its concerns with EU-G7 states and every attempt to undermine Indian diamond business interests by labelling them as ‘War Sponsors’ needs to be proactively dealt with at the highest levels.<sup>18</sup> Italian PM Melony’s invitation to PM

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<sup>13</sup> John Jeffay, **“PM Modi: 150,000 New Jobs at Surat Bourse”**, International Diamond Exchange (IDEX), 17 December 2023.

<sup>14</sup> Sutanuka Ghosal, **“20,000 Jobs Lost in Surat as Diamond Demand Fades”**, *The Economic Times*, 6 January 2023; Vinay Umarji, **“US Sanctions on Russian Diamonds: Surat Industry Stares at 25% Job Loss”**, *Business Standard*, 14 April 2023.

<sup>15</sup> **“Moscow Warns of Diamond Ban’s Impact on Belgium”**, *RT Business*, 11 February 2024; Lisa O’Carroll, **“EU ‘Very Close’ to Finalising Russian Diamond Ban, Says Belgian PM”**, *The Guardian*, 11 October 2023.

<sup>16</sup> Joshua Freedman, **“Sanctions Causing Shipment Delays in Antwerp, Traders Say”**, *Rapaport*, 14 March 2024.

<sup>17</sup> Aryn Baker, **“Blood Diamonds”**, *Time Magazine*, 27 June 2016.

<sup>18</sup> **“Intent to Target Indian Diamond Industry’: Indian Firm After Ukraine Names it Among ‘War Sponsors’”**, *The Wire*, 16 September 2023.

Modi to attend G7 meeting in Italy,<sup>19</sup> offers yet another platform to raise India’s concern at the highest level.

Efforts need to be made to expand India’s diamond business even if Belgium complies with EU-G7 sanctions. Russia’s Alrosa accounts for around 95 per cent of the Russian market of rough diamonds, with majority of its mines located in Arkhangelsk region and in Republic of Sakha (Yakutia) in its Far East region.

Further, as prices of Russian rough diamonds fall due to decrease in Western demands, every opportunity to venture into new Indian investments through private entities (at small, medium and large-scale) could be explored in Russian Far East. Alrosa, which is world leading Russian diamond company, could consider expanding its direct business footprints in Indian cities. India’s domestic wedding industry which accounts for US\$ 130 billion annually could offer huge opportunities for Russia’s diamond business operations in India in future.<sup>20</sup>

### ***Shipbuilding and Ship Repairs***

Presently, Indian shipbuilding accounts for even less than 1 per cent in the global share.<sup>21</sup> As global shipping traffic is expected to grow in the future, there lies immense potential for Indian shipbuilding and ship repair industry to benefit from the emerging business opportunities. PM Modi’s vision to uplift Indian shipbuilding industry, port infrastructure, Blue Economy and all other related maritime sectors through ‘Maritime Amrit Kaal Vision 2047’ depicts country’s future plans to make India a hub for global shipping activities.<sup>22</sup>

Developments on the planned Chennai–Vladivostok maritime corridor could further unleash new opportunities for Indian ports, shipbuilding and ship repair companies. As the volume of the cargo between the Russian Far East and cities on India’s East coast increases, the demand for new cargo ships, dockyards capable of undertaking ship repairs, cargo handling capabilities and manpower (both skilled and unskilled) would also increase. Both Indian and Russian sides are working towards formalising operational plans regarding the movement of cargo along this route, and several trial movements have also been conducted to test the feasibility of this new corridor.<sup>23</sup>

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<sup>19</sup> Suhasini Haidar, “**Modi Thanks Italian PM for Invitation to G-7 Meeting in June**”, *The Hindu*, 26 April 2024.

<sup>20</sup> “**Matrimony is One of India’s Biggest Businesses**”, *The Economist*, 29 September 2022

<sup>21</sup> “**Growth in Shipping Industry**”, Press Information Bureau, Ministry of Ports, Shipping and Waterways, Government of India, 11 February 2023.

<sup>22</sup> “**Maritime Amrit Kaal Vision 2047**”, Ministry of Ports, Shipping and Waterways, Government of India, October 2023.

<sup>23</sup> Abhishek Law, “**Vladivostok-Chennai Route Talks On, Dedicated Shipping Service Under Consideration Too**”, *Businessline*, 19 February 2024.

The upcoming East Economic Forum in Vladivostok in September 2024 offers important platform for India to seek possible investments and business opportunities in the Russian Far East. It equally offers opportunities to showcase Indian capabilities in shipping related domains where big business opportunities from the Russian side could be explored.

Presently, the Russian shipping industry is under severe pressure as a result of Western sanctions that has led to unavailability of critical component and technologies required for ship building and repair in Russia. In November 2023, Russia placed order for 24 tankers, bulkers and container ships from Indian shipyards that are expected to be delivered before 2027 for its Caspian Sea trade.<sup>24</sup> Such business opportunities need to be further explored by India.

### ***Passenger and Cargo Aircraft Industry***

Recent estimates suggest that India’s air passenger traffic is expected to reach 300 million by 2030.<sup>25</sup> In the last decade, India’s domestic air passenger traffic witnessed a compound annual growth rate (CAGR) of 15 per cent, while India’s international air passenger traffic showed a CAGR of 6.1 per cent. Similarly, over last 15 years, India’s domestic air cargo increased by 60 per cent and the international air cargo grew by 53 per cent.<sup>26</sup> Presently, Indian passengers and cargo aircraft fleets are dominated by multiple variants of primarily ‘Boeing’ and ‘Airbus’.

In order to cater to these projected high demands of growing India’s Air passenger and Air Cargo traffic, Tata Group’s Air India, in February 2023 placed a deal of more than US\$ 100 billion with ‘Boeing’ and ‘Airbus’ to purchase a combined order of 470 planes (250 Airbus aircraft and 220 Boeing planes).<sup>27</sup> Similarly, in June 2023, another Indian airline company ‘Indigo’ signed a deal worth US\$ 50 billion with Airbus for the purchase of 500 new planes.<sup>28</sup> In 2023, another newly launched Indian Airline Company ‘Akasa Air’ placed an order for 150 planes with Boeing with estimated value of US\$ 17.5 billion.<sup>29</sup> These three purchases in just 2023 accounted for India’s total direct purchase of 1,120 new planes making it a record purchase in aviation industry.

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<sup>24</sup> Gary Dixon, “**Indian Yards to Build 24 Tankers, Bulkers and Container Ships for Russia**”, TradeWinds— The Global Shipping News Source, 7 November 2023.

<sup>25</sup> “**Air Passenger Traffic in India Likely to Reach 300 mn by 2030: Scindia**”, *Business Standard*, 18 January 2024.

<sup>26</sup> Ibid.

<sup>27</sup> Dan Booth, “**Air India Inks Record-Breaking 470-Plane Order With Boeing and Airbus**”, *Business Traveler*, 14 February 2023.

<sup>28</sup> Andrew Tangel, “**Airbus Sells 500 Jets to India’s IndiGo in Record Aircraft Deal**”, *The Wall Street Journal*, 19 June 2023.

<sup>29</sup> Ragini Saxena, “**Boeing Wins Order for 150 Max Jets from Akasa Amid Recent Mid-air Blowout**”, *Business Standard*, 18 January 2024.

There is an urgent need to diversify and even develop India’s own civil aircraft manufacturing industry. Apart from this, the occurrence of frequent incidents in ‘Boeing’<sup>30</sup> offers yet another reason for India to either diversify its purchases or seek avenues for getting into joint production/technology transfer with like-minded partners for developing India’s indigenous production capacities/capabilities in civil aircraft manufacturing. This could be initially planned to cater to India’s own national requirements and at later stages to cater to global orders.

Russia’s push and serious attempts to revive the lost Soviet legacy of civil aviation offers perfect opportunity for both the countries to venture into this direction.<sup>31</sup> Russia’s ‘Komsomolsk-on-Amur Aircraft Plant’ located in the country’s Far East which maintains production lines for both military (Su-35 and Su-57) and civilian aircraft (Sukhoi Superjet 100), could be considered worth exploring for possible joint research and development.<sup>32</sup> Russia’s plans to replace Sukhoi Superjet 100s engine with indigenously developed Russian PD-8 engines post imposition of Western sanctions could further make Russia more independent in development of these aircraft.<sup>33</sup>

Russia’s ‘Yakovlev MC-21’ which is another advanced civilian aircraft currently under development at ‘Yakovlev Corporation’ (which is a part of the Russia United Aircraft Corporation), could be worth considering for Indian civil aviation industry. Thirdly, Ilyushin Il-96, an aircraft produced in the western part of the country, which is used as a main Russian presidential aircraft, remains another option that could be explored for induction in Indian civilian airline fleets. Presently, Cubana de Aviación is the only commercial operator of this type..<sup>34</sup>

### ***Tourism and Flight Connectivity***

Both Indian and Russian airlines maintain regular flight connectivity between Delhi–Moscow–St. Petersburg–Goa. It is surprising to point out that there is presently no direct flight connectivity between Delhi and Vladivostok or any other Far Eastern city of Russia with India. For travelling to Vladivostok from India or vice versa, one has

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<sup>30</sup> Claudia Chiappa and Tommaso Lecca, “**Boeing Crisis: Why is Everybody Freaking Out?**”, Politico, 19 March 2024; Sukalp Sharma, “**Crashes, Blowout, Leadership Shake-up: What Explains the Boeing MAX’s Issues?**”, *The Indian Express*, 1 April 2024.

<sup>31</sup> “**Russia Has Every Opportunity to Boost Domestic Aircraft Production — PM Mishustin**”, TASS, 26 June 2023; Gleb Stolyarov, “**Russia Aiming to Fly Solo Without Airbus and Boeing**”, *Reuters*, 28 September 2022.

<sup>32</sup> Komsomolsk-on-Amur Aircraft Plant is a part of Sukhoi which now comes under Russia’s United Aircraft Corporation. ‘United Aircraft Corporation’ further comes under ‘Rostec’, which was established in 2007 and is State Corporation for the Promotion of the Development, Manufacture, and Export of High-Tech Products in Russia.

<sup>33</sup> “**The Russian Government Confirmed the Completion of PD-8 Certification by the End of This Year**”, RuAviation, 26 October 2023.

<sup>34</sup> “**Russia Needs to Begin Mass Production of Civilian Planes on Tight Deadlines - Rostec Head**”, Interfax, 17 March 2022.



to fly first to either Moscow or cities such as Tokyo/Beijing/Shanghai/Bangkok. As a result of this, the overall cost of the trip from India to Russian Far East and vice versa becomes significantly expensive and time-consuming. This is also the reason that despite existing provisions of e-visa facilities for Indian tourists to Vladivostok and vice versa, number of tourists to and from India and Russian Far East remains low.

It is therefore high time for both the countries to consider starting a direct air flight connectivity (maybe initially weekly flights) between Delhi–Vladivostok or Chennai–Vladivostok or even Goa–Vladivostok and vice versa. This would further enhance direct people-to-people contacts, enhance tourism and business opportunities by cutting travel time and overall trip cost between India and Russian Far East. As Chennai–Vladivostok maritime corridor develops, ‘Cruise tourism’ offers yet another potential area that could be worth considering by both the sides.

### ***Strategic Calculus***

As shipping activity via Northern Sea Route and Russian Far East en route to/from Asian states increases in the near future, ‘Vladivostok’ could become an important business centre along with crucial shipping and transit port in the region. Vladivostok maintains direct land connectivity with mainland China and North Korea. In May 2023, China managed to acquire the access to use the port of Vladivostok from Russia as a transit hub for China’s own domestic trade supplies even without being subjected to Russian custom duties. This since then has added great advantage to Chinese goods travelling from its Northern provinces of Heilongjiang and Jilin, that earlier had to travel thousands of kilometers via land to reach Chinese ports in the Liaoning region.<sup>35</sup>

It is important to highlight that the Chinese government soon after acquiring the access to use the port of Vladivostok from Russia in 2023, issued an ordinance requiring contemporary Chinese maps to use the name ‘Haishenwai’ alongside Vladivostok.<sup>36</sup> Russia–China boundaries in these regions remain already settled, but this act restarted a debate on Chinese social media regarding the territorial extents of Qing Dynasty. The issue though got attention in Moscow’s policy spheres, but it did not receive much response from Kremlin.

Russia despite allowing China the access to Vladivostok has expressed its desire to enhance its cooperation with India and has consistently sought Indian investment in the development of Vladivostok. The Indian government in 2023 expressed its

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<sup>35</sup> Frédéric Lemaître and Benoît Vitkine, “[Beijing Greenlit to Use Russian Port of Vladivostok for its Domestic Trade](#)”, *Le Monde*, 26 May 2023.

<sup>36</sup> Aleksandra Gadzala Tirziu, “[China’s Maps Call Vladivostok ‘Haishenwai’](#)”, *The Sun*, 24 March 2023; Ma Zhenhuan, “[2023 Edition of National Map Released](#)”, *China Daily*, 28 August 2023.

interest in building a satellite city near Vladivostok via undertaking development in ports, roads and energy infrastructure projects, but no major progress has been made so far. As India–Russia maritime trade between Chennai and Vladivostok could increase in the near future, there is an equal need to enhance naval cooperation between Indian Navy and Russia’s Pacific Fleet.

Important pending agreements such as the Reciprocal Exchange of Logistics Agreement (RELOS) could become further guiding pathways in this direction.<sup>37</sup> Vladivostok and Russia’s Far East offer numerous opportunities for Indian construction companies to undertake various construction and infrastructure development projects in the region. Similarly, Indian private port operating and port infrastructure development companies can consider venturing into businesses opportunities in port sectors in the Russian Far East. All these could enhance India’s diasporic presence in the region that could offer mutual win-win for both India and Russia in the longer run.

## Conclusion

The upcoming East Economic Forum in September 2024 in Vladivostok offers an important platform for both India and Russia to venture into new areas of cooperation. Since the advent of Ukraine crisis, India has been proactive in its approach of defending its engagement with both Russia and the West from the perspectives of its own national interests. At this critical juncture, there lie multiple opportunities for India and Russia to broaden their engagements in new emerging areas which require strong political will from both sides. India needs to continue to pursue its relations with Russia from its strategic and national security perspective rather than from their Western/European geopolitical frameworks and narratives.

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<sup>37</sup> Bipandeep Sharma, “**Reciprocal Exchange of Logistics Agreement: Roadmap to India’s Strategic Access in the Arctic**”, Commentary, Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), 17 January 2022.

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