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Russia Strengthens Ties with Vietnam

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Summary

Recent challenges in exporting energy to Europe have made an orientation toward Asia more desirable for Moscow. Russia's economy depends on hydrocarbon exports, and while Western Europe is attempting to become less dependent on Russia by seeking new energy sources, Asian markets have large and indiscriminate appetites for energy.

Although Russia's focus in Asia traditionally has been on China, Japan and South Korea, it also has ties to Southeast Asia, which remains a strategically significant -- though not absolutely essential -- area for Moscow's efforts to extend its influence and energy exports eastward. Notably, Moscow recently struck a spate of energy and defense deals with Hanoi in an effort to strengthen their relationship, open up new markets for Russian energy and balance against China's moves in Central Asia. Moscow's moves into Asia through Vietnam are proceeding piecemeal, paralleling Russian moves elsewhere in the region.

Analysis

More than 70 percent of Russian territory lies in Asia. Siberia and the Russian Far East -- sparsely populated regions holding significant mineral and hydrocarbon resources -- border China, North Korea, Mongolia and Kazakhstan and have a 4,500-kilometer (2,800-mile) Pacific coastline. Russia's Asian interests also lie to the south, in the former Soviet republics in Central

Asia. Russia remains influential within these states and, under Vladimir Putin's leadership as president and prime minister, has made efforts to secure its southeastern flank anchored by the Tien Shan mountains. However, Russia's influence in Central Asia faces challenges from China, which naturally looks westward to extend its influence.

Russia's Geographic Challenge

Central Asia is not the only area where Russian and Chinese interests collide. The Asian giants' relationship has long been tense, with Sino-Soviet border disputes erupting into violence several times during the Cold War. Russia and China clearly defined their borders in 1991 but have remained in competition abroad. Russia also has a history of conflict with Japan. The countries have been longtime rivals in the northwestern Pacific, and Japan defeated Russia in the Russo-Japanese War in 1905.

In the final years of the Soviet Union, Soviet leader Mikhail Gorbachev began orienting his foreign policy toward Asia in response to a rising Japan. Putin has also piloted a much-touted pivot to Asia, coinciding with renewed U.S. interest in the area, and hosted the Asia-Pacific Economic Cooperation summit in 2012 in Vladivostok, near Russia's borders with China and North Korea. Russia's efforts in Asia have been limited by the country's more direct interests in its periphery and in Europe, but Moscow recently has been able to look more to the east.

Part of this renewed interest involves finding new export markets for Russian hydrocarbons. Russia's economy relies on energy exports, particularly crude oil and natural gas exported via pipeline to the West. However, Western Europe is diversifying its energy sources as new supplies come online out of a desire to reduce its dependence on Russian energy supplies. This has forced Russia to look for new export markets. Because Asia is hungry for energy supplies and is less fearful than Western Europe of a reliance on Russia, Moscow is attempting to shift its energy exports eastward, first with oil and then with natural gas.

With Northeast Asian economies experiencing robust growth, Russia's push into Asia has concentrated on Japan and South Korea, with a strong interest in securing deals with China. But such markets make up only part of the potential Moscow sees in Asia. There are a number of growing energy consumers to the south as well.

Russia's Historical Ties to Vietnam

Vietnam is the pivot point of Southeast Asia, occupying a key position along the major corridors that connect the Strait of Malacca with the Northeast Asian economies, as well as those connecting the northeast to the smaller, dynamic economies to the south. The country is directly accessible by sea from ports in the Russian Far East.

Vietnam has long been Russia's closest partner in Southeast Asia, especially during periods in which both countries were seeking to balance against China. Historically, the country has been a major area of focus for China -- either as a potential client state extending the Chinese coastline south or as a potential thorn in Beijing's side. This is the essence of Russia's interest in Vietnam.

Russo-Vietnamese relations stretch back to Moscow's recognition of the Viet Minh government in 1950. Ho Chi Minh, the father of modern Vietnam, worked for the Comintern in Russia in 1923 before traveling to China to orchestrate his revolution at home. Many of the early regime's senior members were educated or trained in the Soviet Union, and members of Vietnam's current technocratic class were educated in Russian universities, which still accept large numbers of Vietnamese students. Energy cooperation between Russia and Vietnam began in 1959, when the Soviets conducted the first geological surveys of North Vietnam. This cooperation became stronger in 1981, when a joint venture, Vietsovpetro, became Vietnam's first oil company, extracting crude from the Bach Ho offshore fields starting in 1987.

Russian defense assistance to Vietnam also has a long history. The Soviet Union became North Vietnam's primary benefactor in 1965 amid Hanoi's widening split with Beijing, culminating in China's full withdrawal of assistance to Vietnam in 1968. In 1979, the Soviets established a naval base at Cam Ranh Bay in response to China's invasion of Vietnam and its proxy war in Cambodia.

Moscow's Renewed Interest

In 2001, Putin made his first visit to Vietnam, ending a post-Soviet lapse in Russo-Vietnamese relations. During the visit, the countries established a strategic partnership, and Putin's 2006 visit further strengthened the two countries' relationship. In 2012, the countries upgraded their ties to a comprehensive strategic partnership, and Russia invited Vietnam to join its Customs Union. Most recently, on Nov. 12, Putin signed 27 bilateral agreements on energy and defense cooperation during another visit to Hanoi.

In addition to helping establish a Southeast Asian market for Russian energy exports, Moscow's recent moves will also strengthen Vietnam as a counter against China's growing influence to Russia's south. This is why Moscow's deals with Hanoi over the past several years have focused on energy and defense. In 2009, Russia sold Vietnam six Kilo-class submarines, with two to be delivered in 2012 and four more by 2016. In 2011, Russia delivered two Gepard-class frigates to Vietnam, which then ordered two more in September. During his recent visit, Putin suggested that Russia would begin manufacturing military technology in Vietnam and would sign an accord on training and weapons deals.

Meanwhile, Vietnam's appetite for energy is indeed increasing. The country's annual gross domestic product has grown by an average of 6.95 percent since 2000, while oil consumption grew from 176,000 barrels per day in 2000 to 388,000 barrels per day in 2012, with annual growth expected to continue at a rate exceeding 6 percent through 2020. Natural gas consumption is also outpacing gross domestic product growth and production levels. It is expected to reach 3 billion cubic meters per year by 2015, 6 bcm by 2020 and 15 bcm by 2025.

During Putin's visit and the flurry of business meetings beforehand, Russian and Vietnamese firms struck deals on liquefied natural gas, oil sales and energy exploration. Russian state-owned energy giant Gazprom acquired a 49 percent stake in Vietnam's sole oil refinery at Dong Quat and contracted to expand its capacity by 50 percent to some 200,000 barrels per day by 2015. More important, Gazprom contracted to begin to supply oil to the refinery through Russia's

Eastern Siberia-Pacific Ocean pipeline -- around 60,000 barrels per day initially, with the goal of ramping up to 120,000 barrels per day by 2018. Previously, all of Vietnam's crude imports had come from the Middle East.

Russian state-owned oil company Rosneft also became a strategic partner in Vietnam's Nhon Hoi mega-refinery project, which is set to produce an estimated 600,000 barrels per day, though it has been plagued with delays and questions about its viability. Rosneft also plans to acquire a minority stake in an offshore oil block and has expressed interest in another block in the disputed South China Sea. Meanwhile, PetroVietnam, Vietnam's state-owned petrochemical company, acquired the right to explore in Russia's Pechora Sea in Siberia. Gazprom -- which began exploring for natural gas in the South China Sea in 2009 and began pumping from two blocks in October -- plans to supply Vietnam with liquefied natural gas from its planned Vladivostok project. This could supply Vietnam's two planned regasification terminals at Thi Vai (which will have a capacity of 1.38 bcm by 2014) and Son My (4.14 bcm by 2018).

Vietnam's Appeal

Vietnamese energy growth could help Russia expand its export portfolio elsewhere in Asia. Incidentally, with more options in Southeast Asia, Russia will become more capable of leveraging its options to secure deals with major Northeast Asian consumers. At the moment, no single market rivals China, but a combination of countries -- including Japan, South Korea and those in Southeast Asia -- could provide a comparable alternative.

Vietnamese domestic energy demand is only part of the story. Russian assistance with energy and defense will also bolster Vietnam's ability to resist Chinese influence and protect vital sea routes. Russian defense assistance has come in the form of naval technology, and its energy assistance has pushed into blocks in the South China Sea, where Vietnam (along with the Philippines) has been arguing with China about sovereignty. Disputed hydrocarbon blocks in the Nam Con Son basin have been an issue in the disagreements. China National Petroleum Corp. attempted to auction these blocks in September 2012, but Gazprom's recent exploration and drilling operations, which Rosneft could join, have supported Vietnam's claims. The dispute presents an opportunity for Moscow, which could use its relationship with Vietnam as a negotiating tool to slow China's advance into Russia's periphery in Central Asia.