RUSSIA AND JAPAN
Looking Together into the Future

РОССИЯ И ЯПОНИЯ
Совместный взгляд в будущее

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This book is a result of collaboration of experts on Russo-Japanese relations from Russia and Japan. Their contributions offer diverse perspectives on the current state and prospects of the bilateral relationship, covering its various dimensions such as politics and security, trade and investment, energy, transport, student exchanges, etc. Each chapter in the volume contains suggestions and recommendations on how to expand and deepen cooperation between the two countries.

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This volume is the outcome of collaboration of experts from Russia and Japan who offer their analyses of the relationship between the two countries. The chapters of this book cover a broad range of issues, including international politics, security, trade, energy, infrastructure, and education. As the title of the volume suggests, the contributors share a forward-looking perspective. They believe that there is great potential for more and deeper cooperation between Russia and Japan. Even though fully aware of the complexities inherent in contemporary Russo-Japanese relations, the authors emphasize that a window of opportunity has now opened for this potential to be realized.

For almost half a millennium, Russia has been in Asia and of Asia – geographically, politically, economically, and culturally. In addition to its European identity, our country will continue to be a great Asian nation and power. Russia has vital interests in constructive and friendly relations with its Asian neighbors, with Japan as one of the top priorities.

Far Eastern Federal University has a very special role in promoting Russia’s Asian agenda. The University traces its history to the Oriental Institute which was established in Vladivostok in 1899 by Emperor Nicholas II. The Oriental Institute’s primary task was to study the countries of East Asia, including Japan. We are now a comprehensive university with a very diverse range of academic programs, but Asia-Pacific studies remain at the core of our mission. In this regard, Japanese studies are among our most valuable assets. Moreover, FEFU maintains extensive collaborative links with Japanese universities, research organizations and business corporations. FEFU also has a branch campus in the Japanese city of Hakodate.

We are proud that FEFU’s main campus on Russky Island in Vladivostok was chosen as the venue for the September 2016 meeting between President Putin and Prime Minister Abe. This summit is another major step toward a deeper and more constructive relationship between the two countries. I hope that this book, illuminating some challenges and opportunities in the bilateral relations, will contribute to building closer ties between Russia and Japan.

Nikita ANISIMOV
Acting Rector
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Relations between Russia and Japan have long been in limbo, existing in a somewhat anomalous condition where two major powers are neither friends or partners nor adversaries. This is despite the fact that Russia and Japan are neighbors with natural economic complementarities and converging views on many international issues.

The year 2016 has revived the hope that the long-standing deadlock can finally be broken. Leaders of Russia and Japan, Vladimir Putin and Shinzo Abe, who had a positive meeting in Sochi in May, will confer again in Vladivostok in September, and will see each other one more time toward the end of the year if Putin makes the long-awaited visit to Japan. Very few specific details are coming out of this summitry, but there is a feeling shared by many – though not all – observers that the Putin-Abe diplomacy might lead to a real breakthrough.

Part of the optimism is generated by the fact that Putin and Abe are both strong leaders enjoying high sustainable levels of popularity and trust in their respective nations. Both are capable of making bold and unorthodox decisions in foreign policy with confidence that the public and elites will support them. Some would even argue that Putin and Abe speak a common language in terms of their outlook: in domestic politics both men lean toward conservative values, while aspiring to the vision of their countries as influential and great-power players on the world stage. And there is obviously some measure of amicable personal chemistry between these two incumbents.

Apart from subjective and personal factors, there are geopolitical and geo-economic considerations at play encouraging the two countries to seek rapprochement.

Being locked in a confrontation with the West, Moscow hopes to find, in Japan, a major developed partner which is able to do business with Russia on a pragmatic basis. Furthermore, better ties with Tokyo are seen as an essential element in its ongoing efforts to engage Asia and boost the development of Russia’s vast eastern territories. Without Japan, Russia’s “Asian pivot” might risk being lopsided and shaky.

For its part, Japan finds itself in an increasingly complicated security environment in its immediate neighborhood. The rise of China, rife with military-political implications, causes angst among many in Japan. North Korea, which is steadily advancing its nuclear and missile programs, is a growing threat, while Tokyo’s political relations with South Korea remain lukewarm at best. At the same time, the alliance with the United States, for long the cornerstone of Japan’s foreign policy, looks less and less “ironclad,” with significant portions of the American electorate exhibiting an isolationist mood and demanding the downgrade of US security commitments overseas. Under such circumstances, it becomes indispensable for Tokyo to attempt true normalization of relations
with Russia which is probably Japan’s only neighbor that does not harbor anti-Japanese sentiments. Geo-economic considerations also play a role, with the Russian Far East’s rich energy resources as an obvious option to enhance Japan’s energy security.

It is important not to overestimate what the two countries can achieve in their possible rapprochement. In particular, Tokyo should not expect that Russia’s becoming friendly with Japan would significantly change the nature of the Russia-China relationship. For the foreseeable future, Beijing will remain Moscow’s number one strategic partner in the Asia-Pacific. Russia will never take part in anything that might hint the containment of China. What Tokyo can legitimately hope for, however, is that the Russia-China axis will not have anti-Japan overtones. In the same vein, Russia would be wise to acknowledge as a fact of life that Japan is not going to end its close alliance relationship with the United States. Still, Moscow can realistically assume that Japan, despite its status as Washington’s ally, will display more independence in dealing with Russia.

This book is the result of collaboration of experts from Russia and Japan. The volume brings together veteran analysts of Russo-Japanese relations along with scholars of younger generations. Their contributions offer diverse, sometimes even conflicting perspectives on the current state and prospects of the bilateral relationship covering various dimensions such as politics and security, trade and investment, energy, transport, educational cooperation and student exchanges, etc. Yet, all the authors share the belief that Japan-Russia relations are important and deserve to be much better than they are now.

The book opens with the chapter by Tsuneo Akaha, who notes that neither Russia nor Japan has been able to develop a strategic vision for their long-term relationship, much less for their engagement in multilateral dialogue for the establishment of a new global order. Moral courage and pragmatism are required in both Moscow and Tokyo to strike a mutually acceptable compromise on the territorial dispute based on political wisdom that appreciates the long-term strategic value of a substantially improved relationship between Russia and Japan. Social contacts between the Russian and Japanese people must also be significantly expanded. Only through substantially expanded and regular contacts will Russians and Japanese cease to see each other as “distant neighbors” and view each other as “future partners.”

Dmitry Streltsov argues that Japan’s pro-active stance with Russia can be viewed as a method of strengthening its positions in bilateral relations with the United States and China. In recent years, Japan’s dependence on US security guarantees has grown against the background of China’s military rise and the progress of the DPRK’s nuclear program. Tokyo is trying to moderate this dependence by diplomatic overtures to Moscow. The stronger Japan-Russia ties become, the more confident Tokyo feels vis-a-vis Washington and Beijing. Streltsov is skeptical as to the likelihood of the border dispute resolution, pointing out that there are powerful pressure groups in Japan interested in keeping the problem alive. According to him, the main promise in bilateral relations lies in the efforts by both sides to remove the problem of a peace treaty from the center of the political agenda and to concentrate on more productive and positive issues such as economic cooperation.

Kazuhiko Togo, formerly a high-ranking Japanese diplomat who was closely involved with Japan-Russia issues, provides a review of how the territorial
problem emerged and evolved while remaining unresolved to this day. Togo is fairly optimistic about the prospects of settling the border dispute, seeing in Shinzo Abe “a definite willingness and readiness to focus on this issue.” Abe’s domestic position as the prince of conservative leadership allows him to make bold decisions. His greatest challenge comes from the international situation, in particular vis-à-vis the United States, and possibly other G7 countries such as Canada or Great Britain, who view Putin as the destroyer of the post-Cold War legal and political order. However, according to Togo, it may be a little more possible for Abe to make a bold decision than usually thought. After all, the main political objective of Abe’s greatest mentor, his grandfather Nobusuke Kishi, was to gain a more autonomous position vis-à-vis the United States, based on the acute sense of pragmatism to not antagonize it. Cannot Abe follow in his grandfather’s footsteps?

In her chapter, Kristina Voda emphasizes security as a major area for enhancing Russia-Japan interaction. In particular, Russia and Japan can strengthen cooperation on nuclear non-proliferation. Moscow and Tokyo could also consider developing a dialogue between Russia and the US–Japan alliance along the lines of the Russia–NATO Council. Such a platform could be used to create confidence and security-building agreements, including transparency measures regarding military doctrines and regional deployments, as well as develop cooperation to address emerging threats and security challenges. Furthermore, Moscow and Tokyo need to strengthen efforts to enhance confidence and promote cooperation through multilateral frameworks. Regional mechanisms and institutions, such as the ASEAN Regional Forum, the ASEAN Defense Ministers Meeting–Plus, the East Asia Summit, and APEC, represent important dialogue platforms to address new security threats including terrorism, piracy, drug smuggling, etc.

Hirofumi Arai discusses economic links between Japan and the Russian Far East. Examining bilateral cooperation in energy, he sees great promise in natural gas projects, including the expansion of the existing Sakhalin-2 LNG plant, Rosneft’s Far Eastern LNG project, the Sakhalin-Japan pipeline, and the Vladivostok-Japan pipeline. He highlights the Russian Far East’s potential to serve as a crucial link in international transport routes in which Japan might also be interested. Arai gives a positive assessment of Russian government efforts to attract investments to the Far East through measures such as the establishment of “territories of advanced development” (TORs) and the free port of Vladivostok. He cites Japanese JGC Corporation, which started a greenhouse business in Khabarovsk, as an early beneficiary of this investment-friendly policy.

Tagir Khuziyatov laments that Russo-Japanese economic cooperation has never reached its full potential. The very structure of economic relations, essentially an exchange of natural resources for manufactured goods, defines the limitations and risks for both sides. Basing Japan–Russia ties primarily on energy runs the risk that the bilateral relationship will become a prisoner to market forces, such as fluctuations in oil prices. Both countries should diversify the foundations upon which the bilateral economic relationship is based. Khuziyatov identifies some promising areas for economic partnership, particularly infrastructure development and the Arctic.

Sergei Sevastianov and Dmitry Reutov note that Russian energy shipments to Japan are growing and new energy cooperation projects are being discussed. However, low prices for hydrocarbons, and especially
Western financial and technological sanctions, are making new projects more
difficult. Currently, the most realistic model for bilateral cooperation seems to
be participation of Japanese corporations in Russian oil and gas companies,
including the refining and petrochemicals sectors, through acquisition of minority
stakes. Among projects in gas cooperation, the Yamal LNG and construction of a
third production line at the Sakhalin-2 LNG plant could be most viable. Rosneft’s
LNG plant project in Sakhalin and Gazprom’s LNG project in Primorsky Krai
have little chance to be implemented in the near future. The construction of an
underwater gas pipeline or an electricity line from Sakhalin to Hokkaido is even
less probable. Nevertheless, any of the above-mentioned projects could be
reactivated if Russia receives attractive long-term proposals from Japanese
investors and technology partners, and especially if Russian and Japanese
political leadership demonstrate strong political will to make progress on any of
them.

Tetsuya Toyoda urges more student exchanges between Russia and
Japan. Currently, there are few Russian students in Japan and even fewer
Japanese youth studying in Russia. With more Russian youngsters going to
Japanese universities and more Japanese studying in Russia, the volume
of economic exchanges both in trade and investment should increase in the
future. It is necessary to break the vicious cycle of little human intercourse and
little economic cooperation. Toyoda sees two issues as being crucial to making
a breakthrough in education exchanges: more courses in English and more
government support.

Natalia Stapran and Olga Danilova remind us that, as a federation,
Russia grants its constituent units (“federal subjects”) the right to develop ties
with foreign states in appropriate areas while Japan’s prefectures have similar
rights. Thus, on the subnational level, Japanese and Russian regions can
become actors in international relations. Their chapter, comparing federal/central
and regional levels of interaction between Russia and Japan, examines how the
advantages of contacts at different levels can further improve relations. Stapran
and Danilova argue that promoting bilateral relations on the subnational level
can make it easier to avoid political controversies, which is often impossible on
the intergovernmental level. Also, the decision-making process typically takes
less time if done by local administrations, who have focused and direct contacts,
rather than by central government officials who are responsible for developing
diplomatic relations globally.

As Russia turns to the East, the success of this strategy will crucially
depend on whether its eastern territories can be transformed from the country’s
long-neglected backyard into its Pacific front gate. As Artyom Lukin emphasizes
in his chapter, revitalizing the Russian Far East is impossible to achieve without
expanding and deepening links with the neighboring countries of Northeast
Asia – China, Korea, and Japan. He focuses on how Japan can contribute to
Russia’s, and its Far East’s, integration into the emerging economic community
of Northeast Asia whose main institutional embodiment is now the Trilateral
Cooperation of China, Japan and South Korea (CJK). Lukin argues that Russia
should make efforts to join CJK in some capacity with Japan playing a facilitating
role in this process. Encouraging and helping Russia to join the Northeast Asian
regional cooperation would demonstrate that Tokyo is committed to improvement
of bilateral relations and is willing to have Russia as an essential player in Asia.
In the final chapter, James Brown takes us on an imaginary journey by train from Tokyo to Yuzhno-Sakhalinsk in the year 2036. The shinkansen travels via the world’s longest undersea tunnel that connects Hokkaidō with Sakhalin. This is also the route of the Russia-Japan energy bridge and gas pipeline. In the twenty years separating us from this imaginary future, Russia and Japan have successfully resolved the territorial dispute, concluded a free trade agreement, and introduced mutual visa free travel. Brown then explains how this highly optimistic vision could materialize. Above all, there will need to be major changes in attitudes on both sides. In particular, political leaders will need to be courageous and set aside considerations of short-term popularity. If their countries’ decision-makers concentrate on the enormous future potential of this bilateral relationship, and not on the tensions of the past, perhaps they can find the inspiration to transform Russia-Japan relations.

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Uncertain strategic landscape and mounting domestic challenges

The balance of power in East Asia has undergone a dramatic change as a result of the relative decline of the United States, the spectacular rise of China, and the two-decades-long economic stagnation in Japan. As a result, the strategic environment surrounding Russia and Japan has become very fluid and complex, rendering the formulation of a long-term strategic vision extremely difficult. Some troubling consequences of the Second World War and the Cold War remain unresolved, including the division of the Korean peninsula between North and South, the uneasy relations between the People’s Republic of China (PRC) and the Republic of China (Taiwan), and the sovereignty disputes over island territories claimed by China, Japan, Taiwan, Korea, and Russia. The region is also
witnessing security threats of more recent origin – most notably North Korea’s nuclear and missile development and competing territorial sovereignty and maritime border claims in the East and South China Seas. Every one of these is a serious cause of tension and can threaten the peaceful and stable development of major-power relations at the global level.

Russian and Japanese leaders face daunting challenges at home as well. As Russia was about to come out of the post-Soviet decades of political turmoil, economic stagnation, and social deterioration, the Putin administration’s defensive efforts to put a stop to the eastward expansion of NATO, culminating in the incorporation of Crimea and military support for pro-Russian forces in eastern Ukraine, were met with sanctions by the United States and its Western allies, which, along with the plummeting energy prices, plunged Russia into serious economic difficulties. The Russian people have shown their well-known resilience in the face of daily hardships and strongly embraced their government’s call for patriotic solidarity against the West’s attempt to isolate and weaken Russia. However, the mounting economic problems at home cannot but limit Moscow’s foreign policy and domestic policy initiatives, including the pivot to the east, i.e., deepening of relations with East Asian countries, to compensate for the deteriorating relations with the West.

Japan also faces a number of serious foreign and domestic policy challenges. Following two decades of economic stagnation known as the “lost decades,” the Abe administration launched a three-pronged economic revitalization program, known as “Abenomics,” including depreciation of the national currency, easing of money supply, and structural reform. Despite a few signs of economic upturn, the last of the three “arrows” of Abenomics has failed by most accounts, the corporate and consumer confidence in economic recovery has slumped, and Japan has fallen into another economic recession. The nation’s declining and ageing population also threatens to sap what
is left of Japan’s economic vitality. On the international front, the Abe administration has adopted a new security policy under the banner of “active pacifism.” The government has taken steps to expand Japan’s role in the bilateral alliance with the United States by re-interpreting the nation’s constitution to allow the Japanese Self-Defense Forces’ participation in collective self-defense actions abroad, passing legislation to implement the revised national security policy, adopting new guidelines for defense cooperation with the United States, and significantly increasing its defense budget. The Abe administration has also embarked on a major reorganization and repositioning of the defense forces to counter the increasingly assertive China and its aggressive behavior in the East and the South China Seas. However, a strong majority of the public remains apprehensive about the change to their constitution through re-interpretation and concerned about Japan being entrapped in alliance-driven foreign war that does not necessarily threaten their own security. Meanwhile, Japan is struggling to deal with the legacy of the Second World War, including the territorial disputes with China, Korea, and Russia and the issues of apology and compensation for the victims of Japanese wartime aggression, i.e., the “comfort women” and other foreign citizens who were forced to work for wartime Japanese industries.

Under these circumstances, neither Russia nor Japan has been able to develop a strategic vision for their long-term relationship, much less for their engagement in multilateral dialogue for the establishment of a new global order. Without such a vision, can the two countries overcome the legacy of past history and forge a relationship of trust and friendship, a requirement for any two nations that define themselves as a great world power and contributor to global peace and prosperity? What steps should they take to meet this requirement and live up to their self-expectations? Nor can Russian and Japanese leaders ignore the growing importance of domestic public opinion regarding their foreign policies. What is the state of pub-
lic opinion in both countries toward each other? Do the ordinary citizens desire improved relations? This essay is an attempt at answering these questions.

**Discordant lessons of history and territorial impasse**

One of the most important reasons why most Japanese feel very little affinity toward Russia and view Japan-Russia relations as bad is related to the post-WWII Soviet/Russian occupation of the small islands known in Japan as the Northern Territories and in Russia as the southern Kurils. As long as Russia and Japan remain at loggerheads over the territorial dispute and unable to conclude a peace treaty, the fog of history is unlikely to lift.

The Soviet and Russian governments have maintained that the islands are legitimate spoils of the war according to the terms of the Potsdam Declaration and an integral part of their national territory, and most Russians support their government’s position and are opposed to transferring any of the islands to Japan. For example, the Levada Center’s survey in the 1990s through 2011 showed only 4-11 percent of respondents supported the idea of territorial transfer to Japan and an overwhelming majority (67-90%) was opposed.¹ The Japanese government has persistently claimed that the islands are their inherent territory and the Soviet/Russian control of the islands since 1945 is illegal and unjust inasmuch they were not included in the territories Japan had acquired by violence and greed but agreed to surrender under the terms of the 1951 San Francisco Peace Treaty, which the Soviet Union did not sign. It is not the intent of this paper to pass judgment on the legitimacy of either side’s claims.

Rather, it is simply to point out what the Japanese government has informed their people and what the Japanese people have believed and continue to believe, which, along with other reasons, is at the basis of their negative attitudes toward Russia.

Former Russian ambassador to Japan Alexander Panov maintains that beyond the territorial issue, “there are no other obstacles preventing Russia and Japan from establishing genuinely partnership relations.” He goes on to say, “The objective reality is that it is highly unlikely that the national interests of Russia and Japan will come into conflict over any principal aspect of their relationship, now or in the future – be it politics, economics, or security.”

He even states, “The Ukraine-Crimea problem does not affect any serious interests of Japan,” “Russia does not pose a threat to Japan,” “[T]here is no Japanese threat to Russia,” and “Rather, there is mutual desire to ensure stability in the Asia-Pacific region and, above all, in Northeast Asia.”

So, how heavy is the fog of history and is it likely to lift in the near future? Panov laments, “In the history of their (Russian-Japanese) bilateral relations, especially those related to the territorial dispute, numerous attempts to resolve it have all ended in partial or complete failure,” which resulted in “the frustration on the Japanese side” and this “impeded further development of relations.” He nonetheless observes that many Russians “see the need to build a new framework, clarifying the strategic significance of this relationship, on the way to boosting economic relations and rejecting any ultimatum related to territorial matters.”

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3 Panov, op. cit.

4 Panov, p. 32.
Minister Abe “made an abrupt shift in Japan’s approach,” to restore the dialogue between Tokyo and Moscow because, according to Panov, the Japanese leader wanted to “find a way to solve the territorial problem” and also “prevent the emergence of a strong anti-Japan partnership between Russia and China.” He reminds us that President Putin, in his meeting with Prime Minister Yoshiro Mori in 2001, “underscored the presence of Article 9 of the Joint Declaration of 1956, which anticipated the transfer of Habomai and Shikotan Islands to Japan, following the signing of a peace treaty, and proposed that the two sides begin discussion of this article.” The former ambassador observes, however, that this “radical change in attitude toward the article did not evoke an adequate response from the Japanese leadership” and the stalemate continued. It was against this background, Panov reminds us, that President Putin suggested in March 2012 that he was willing to negotiate the issue according to a “hikiwake” formula. The Russian president’s proposal prompted the Japanese to speculate about the meaning of the judo term, meaning “draw” or “tie,” with some observers suggesting that Russia might be willing to surrender the Habomais and Shikotan to Japan while retaining control of the other disputed islands and others wondering if Putin was hinting that the two sides might agree to a 50-50 split of the entire land area of the disputed islands.

Such speculations cannot be easily dismissed. Putin’s love of judo is well known and his reference to the judo terminology is not only symbolic but also personal to the Russian president. One might go so far as to say that his outlook on life has been profoundly affected by judo. He believes that judo teaches its practitioners a philosophy and the virtue of respect that he admires. In an interview in December 2015, Putin stated, “[I]t’s not a team

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5 Ibid.
6 Ibid., p. 33.
7 Ibid., p. 34.
sport, you can’t hide behind a team mate, a coach... You have to face your opponent. Philosophy of Judo, in my opinion, is very deep... Respect to your opponent, coach, team. It’s an extremely important thing. It is called ‘soft way.’ It’s not sharp, but reliably effective.”

Former high-ranking Japanese diplomat Kazuhiko Togo observes that Russia and Japan have so far missed an opportunity to find a mutually acceptable path toward territorial resolution and a peace treaty according to Putin’s “hikiwake” formula, and provides a rather gloomy prospect for a breakthrough on the territorial issue. Yet, he maintains that if Russia and Japan are to reactivate their negotiations, they would need to embrace the principle behind the “hikiwake” formula, which is that neither side loses. He then suggests that a “reasonably clear” answer could be found in the so-called “two plus alpha” formula, whereby Russia would agree to transfer control over the Habomai islets and Shikotan Island to Japan, and the two sides would negotiate what the “alpha” might be. Ambassador Togo then refers to a proposal he jointly issued with Ambassador Panov in 2013, according to which Russia would agree to transfer the islands of “Habomai and Shikotan (to Japan), as prescribed in the 1956 Joint Declaration, and establish a special joint economic zone on Kunashiri and Etorofu, with a special joint-legal status acceptable to both.” In support of this formula, Ambassador Togo reminds us that President Putin “became the first president who officially acknowledged the 1956 Joint Declaration.”

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8 https://m.youtube.com/watch?v=wV8emXx7CmM (accessed June 14, 2016).
11 Ibid., p. 27.
12 Ibid.
Limited human contacts between the Russians and the Japanese

Meanwhile, ordinary Russian and Japanese citizens have very limited contact and there does not appear to be any significant desire to change this poor state of relations at the people’s level. Their mutual perceptions and expectations are far from ideal for improving relations between their countries. The attitudes of the Russian people and the Japanese people toward each other’s country are lukewarm at best and quite one-sided, with the Russians holding substantially more favorable views of Japan than the Japanese of Russia.

The Levada Center’s public opinion polls in the 2000s and early 2010s showed that between 67-82 percent of respondents held “very good” or “mostly good” attitudes toward Japan in general in comparison with only between 7-20 percent of respondents who held “bad” or “very bad” attitudes. According to the Center’s surveys conducted in 2005, 2010, 2015, and 2016, only between 3-6 percent of the respondents named Japan as one of the five countries considered having “the most unfriendly and hostile relations towards Russia.” In contrast, public opinion polls in Japan over the years reveal that the Japanese people feel very little affinity toward Russia. The Japanese Cabinet Office’s surveys in 2005, 2010, and 2015 showed that the respondents with favorable attitudes toward Russia accounted for only 16.2 percent, 14.0 percent, and 17.4 percent, respectively, of those polled. In contrast, those with no favorable attitudes toward Russia represented 77.6

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percent, 82.4 percent, and 79.3 percent. However, most Japanese realize that Japan-Russia relations are “not good” but they also want their relations to improve.

Constrained economic relations: the potential vs. the reality

Russian and Japanese economies are largely complementary, yet their bilateral trade and investment relations are very limited. On the one hand, Russia, with its enormous energy and other natural resource endowments, is a very luring trade partner for the resource-poor Japan. On the other hand, Russia is attracted to Japan’s enormous capital and industrial technology, as well as its high-quality industrial and consumer goods, which would be greatly beneficial to Russia’s development. In the above cited publication, Ambassador Panov observes, “There is little prospect that the two will compete for markets. Indeed, it seems very unlikely that any sort of economic conflict will arise between the two countries.”

He is disappointed that the bilateral trade is at a substantially lower level than their potential would indicate, with Japan accounting for only about 4 percent of Russia’s overall trade turnover and Russia’s share in Japan’s trade representing a mere 1.8 percent of the latter’s global trade.

How has the Ukraine crisis affected Russia’s relations with Japan? According to Panov, the two countries’

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16 According to the Cabinet Office’s public opinion survey in 2015, 52.5 percent of respondents thought Japan-Russia relations were “not particularly good” and 18.5 percent said the relations were “not good at all,” as compared with 20.5 percent and 1.3 percent who thought the relations were “somewhat good” or “good,” respectively (Naikakufu Dajinkanbo Seifukohoshitsu, “Seronchosa” [public opinion survey], http://survey.gov-online.go.jp/h27/h27-gaiko/zh/z07.html [accessed June 21, 2016]).

17 Panov, p. 35.

18 Ibid.
trade and investment relations have not been impacted to any significant degree. However, Japan’s participation in the U.S.-led sanctions against Russia has led to growing Russian antipathy toward Japan.\textsuperscript{19} Japan’s rather symbolic sanctions against Russia do not appear to have had a significant impact on Russia’s material or political interests, but we should see them against the backdrop of Russia’s increasingly critical view of the West. Indeed, Japan’s role in the Western sanctions is seen as evidence of Japan’s lack of independence from the United States.\textsuperscript{20} It is also important to see this issue against the background of Japan’s persistent territorial demands against Russia. Panov reminds us: “Before making a fateful decision for both countries, it is extremely important to change, in a fundamental manner, the character of Russo-Japanese relations. This change must involve achieving a high level of mutual trust and cooperation in all spheres, including public opinion in both states, so that a compromise decision on the territorial problem is not interpreted as an unjustified concession and a defeat at the hands of the negotiating partner.”\textsuperscript{21} Indeed, a recent review of Soviet/Russia-Japan relations since the 1970s reveals that the basic character of the bilateral relations has not changed despite the dramatically altered global and regional political and economic dynamic and that this is largely due to Japan’s myopic focus on the territorial dispute and its failure to appreciate the strategic value, in regional and glob-

\textsuperscript{19} Ibid., p. 36.

\textsuperscript{20} Akaha held several meetings with academic researchers in Vladivostok and Khabarovsk in March 2016 and was reminded that from Russia’s perspective, the fact that the world’s third (until recently second) economy continued to rely on the protection of its ally, the United States, for its security despite its growing dependence on trade and investment activities in China demonstrated Japan’s lack of independence in the political sense.

\textsuperscript{21} Panov, pp. 38-39.
al terms, that it could gain from improved relations with Russia.  

**Responsible leadership: morality and pragmatism**

Given the uncertain strategic environment surrounding Russia and Japan today, the lopsided mutual perceptions of their people, the discordant history lessons the two countries have learned and handed down from generation to generation, and the glaring gap between the potential and the reality of bilateral economic ties, what should the two countries do to overcome the legacy of history and build a future-oriented relationship?

What is required is moral courage and pragmatism in Moscow and in Tokyo to strike a mutually acceptable compromise on the territorial dispute based on a political wisdom that appreciates the long-term strategic value of substantially improved relationship between Russia and Japan. Both sides need to take steps to cultivate robust domestic popular support for a compromise on the island territories. Such a compromise would be historic as it would break the impasse the two sides have for decades been unable to break out of. For a compromise solution to gain popular support and leave no sense of injustice and unfairness on either side, it should not be seen as a sacrifice on the part of the public of either country as a top-down decision dictated to them. Instead, it should be understood as a step toward expanded relations that are visibly beneficial to both sides for generations to come.

Back in 2005, a Russian colleague and I wrote an op-ed for the International Herald Tribune-Asahi Shimbun,  

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in which we called for political wisdom in both Moscow and Tokyo and offered some ideas to be considered for territorial resolution and a peace treaty. I summarize the gist of the proposal below because I believe it still merits consideration by both sides:

- Moscow would agree to return the Habomai and Shikotan islands to Japan within a reasonable period of time; both sides would commit themselves to resolving the dispute over the other two islands;
- Tokyo would agree that during this “transition period” it would not raise the issue of the remaining islands in any official talks with Moscow;
- Current Russian residents on the disputed islands would continue to live there during the transition period and that former Japanese residents of those islands would be allowed to visit their ancestral land freely, and other Japanese would also enjoy this right;
- Japan would invest both public and private funds in the substantial improvement of economic and social infrastructure during the transition period and beyond;

At the end of the transition period, Japan would exercise sovereign jurisdiction in the Habomai islets and Shikotan island but that Russian residents and their future children would be allowed to live there as permanent residents of Japan; and,

During the transition period, the criminal, civil, and other legal codes of each country would apply to their respective citizens on the islands, and disputes involving Russian and Japanese residents would be submitted to a court in either country’s jurisdiction to be selected by the litigants or to a special court to be established by Russia and Japan.

To improve the chances of ideas such as the above being supported by those in Russia and Japan who stand
to gain materially from improved relations, economic ties between the two countries need to be substantially expanded. Recent initiatives in Russia for easing both domestic and foreign investment in its Far Eastern territories should be backed by sustained political support from Moscow and financial investment by both Russian sources and Japanese sources. Although the Japanese business community has expressed interest in Russian initiatives in the Far East, several things must happen if they are to be convinced that their investment will produce results. Priorities must be placed on the elimination of bureaucratic hurdles, reduction in administrative costs, enactment and effective implementation of legislation for tax incentives and other benefits for potential investors, and pursuit of joint development projects backed by commitment at the highest level of political leadership in Moscow and Tokyo.

Social contacts between the Russian and Japanese people must also be expanded – and substantially so. There are currently modest numbers of Russian residents and visitors in Japan who are enjoying their social, cultural, educational, employment, and even marriage opportunities in the host country, but their numbers need to be expanded substantially if these opportunities are to have a significant impact on the mutual perceptions of the public at large. The number of Japanese residents and visitors in Russia is very limited, and obviously this too needs to change. Ecotourism and cultural exchanges are among the elements of Russia’s soft power that are attractive to ordinary Japanese citizens. Russia and Japan should also cooperate in expanding educational opportunities for young Japanese. Only through substantially expanded and regular contacts will the Russians and Japanese cease to see each other as “distant neighbors” and view each other as “future partners.”
Japan’s pro-active stance with Russia can be viewed as a method of strengthening its positions in bilateral relations with key diplomatic partners, the United States and China. In recent years Japan’s dependence on US security guarantees has grown against the background of China’s military rise and the progress of the DPRK’s nuclear program. Japan is trying to compensate this dependence by increasing the assertiveness of its diplomacy. In this regard, relations with Russia serve as an excellent testing ground: the stronger Japan-Russia ties are, the more confident Tokyo feels vis-a-vis Washington.

But the rise of China is no less important in explaining why Japan wants to transform its relationship with Russia. Tokyo has openly expressed serious fears of a military confrontation with Beijing over China’s claims to the Senkaku/Diaoyu Islands in the East China Sea. Japan is also uncertain about how the United States would respond to a major military incident there. Besides, Japan
feels uneasy with the prospect of the formation of an anti-Western Moscow-Beijing axis. The desire to improve relations with Russia is yet another manifestation of Tokyo’s hedging policy aimed at preventing Moscow’s excessive diplomatic isolation and hindering its political rapprochement with Beijing that would include a strong anti-Japanese element.

For Russia, good relations with Japan are necessary for deepening its economic and political integration with the dynamically developing Asia-Pacific region. The strategy of the Russian Federation in the East must ensure social and economic development of the Asian part of Russia, The Russian Far East (RFE). In this context, the eastern focus in Russian energy policies demonstrates a change in the appreciation of Japan as a prospective market for Russian energy resources. Russia requires a long-term and predictable partner because of the acute need for Japanese investment and technologies to provide for a modernization breakthrough in the RFE. It is also clear to Russia that its relations with Japan must improve if it is to achieve a more balanced economic and political strategy in Asia, particularly in the context of the economic and military rise of China.

Though disappointed with Japan’s sanctions policy, Russia still acts on the premise that the Ukrainian issue does not affect Japan’s national interests directly and gives Japan special treatment, separating her from the other G7 countries. Moscow does not overly criticize Tokyo in state-controlled media and in senior officials’ public statements. Japan’s sanctions against Russia are portrayed as ‘insignificant’ and ‘compelled’ under severe pressure from Washington.

In Moscow, attention is focused on the fact that Japan is actually withdrawing from the consolidated Western front by demonstrating greater flexibility towards Russia. In Moscow’s view, Tokyo could play the role of mediator, capable of conveying Russia’s position to the West. An additional motivation towards good relations with Ja-
pan is created by Russia’s financial crisis caused by the unprecedented decline in oil prices in 2015-16.

Moscow sees improving personal relations between President Putin and Prime Minister Abe as additionally important in making its policy towards Japan. Such relations are especially important given personality-oriented loyalties of the electorate in both countries.

Historical issues in Russia’s relations with Japan

Russia traditionally refrains from overly criticizing Japan with the theme of unresolved historical issues. During the Cold War, the Soviet historiography, for obvious reasons, paid much more attention to the facts and events related to the Great Patriotic War against Nazi Germany. The main motive for the Soviet Union to attack Japan at the end of World War II was not retribution for Japanese military crimes, but the fulfilment of Moscow’s obligations to its allies. Moreover, unlike China and both Koreas, the USSR, after having signed the Soviet-Japanese Joint Declaration of 1956, considered all bilateral issues related to the past war completely settled, so there was no reason to bring up any “unresolved” issues.

Another factor in Moscow’s self-restraint was its geopolitical rivalry with Washington: playing the game of the Cold War, the USSR nourished hope to tear Japan away from its alliance with the United States or at least to neutralize it. And as the political relations between the USSR and Japan remained strained, largely because of the still unresolved matter of the bilateral peace treaty, Moscow did not want to add other obstacles.

The Sino-Soviet conflict of the 1960s also influenced Soviet-Japanese relations. In Moscow’s eyes, excessive attacks on Japan for the actions of the Imperial Army in China would be ill-advised, as they might indirectly support the Chinese view of those events. Under these circumstances, official Soviet historiography refrained from too vehemently criticizing Japan for its war crimes, con-
centrating instead on the threat of a resurgent Japanese militarism.

This situation did not change much after the end of Cold War. The rapprochement with China did not lead to Moscow’s siding with Beijing in its criticism towards Japan. Neither does Moscow take Beijing’s side in its territorial dispute with Japan. Russia has been extremely cautious concerning these matters, consistently resisting China’s offers of striking a deal, in which Beijing would acknowledge the ‘Northern territories’ as Russia’s while Moscow would take the Chinese side in the Senkaku dispute. Russia’s main motive is not to add such sensitive issues to the list of mutual grievances with Japan.

Russia’s unspoken hope regarding Japan is based on historical experience. Japan has often shown a sense of political expediency, reluctant to stick to ‘democratic principles’ in situations affecting her national interests. For example, in its Official Development Assistance (ODA) policy, Japan was always the first to lift sanctions against ‘undemocratic’ regimes should they harm Japan’s economy, as was the case with China in the wake of the Tiananmen incident of 1989. And earlier, in 1980, Japan had been very formal in joining Western sanctions against the USSR after the entry of Soviet troops into Afghanistan. Despite these sanctions, Japan continued to intensify trade and investment relations with Moscow which grew rapidly in the early 1980s. At present Russia hopes Japan will remain pragmatic following the principle of ‘business as usual’ with Moscow, and that in future she might play the role of a ‘bridge’ in normalizing Russia’s relations with the West in exchange for certain economic benefits.

The problem of a peace treaty

Importantly, Russia recognizes the need to continue discussions with Japan on the territorial issue. However, it is noteworthy that the Japanese side seems to place its main hopes, at least outwardly, not on these negotiations,
but on the political will of the two leaders. At the final press conference during Abe’s visit to Sochi in May 2016, the Japanese leader spoke about the possibility of resolving the dispute together with the Russian president: “We agreed to resolve it while establishing a future-oriented relationship between Japan and Russia.”¹

Abe again put forward the idea of a ‘new approach, free from the ideas of the past’, refraining from details, but adding that Japan’s proposal stemmed from the fact that the negotiations on a peace treaty were stagnant and brought no result². Cabinet spokesman Yoshihide Suga was more articulate stressing that, in this new approach, there is no change in the basic position of signing a peace treaty after the determination of the sovereignty of the four islands³. This might suggest that the main aim of the ‘new approach’ is to demonstrate the intention of moving the negotiation process from its deadlock. And yet, as historical experience of the peace treaty negotiations shows, discussions of ‘new ideas’ can last infinitely long.

Is a ‘new approach’ possible at all? Japan is obviously counting on concessions from Russia which is interested in developing economic ties with Japan and improving relations with the West. However, Tokyo’s fundamental miscalculation lies in the underestimation of the fact that most Russians do not understand the essence of the territorial issue with Japan, perceiving it solely as Japan’s ‘groundless territorial claims’. Therefore, it is difficult to imagine a scenario in which Putin would transfer any territories to Japan, even within a legally flawless solution. In the eyes of many Russians, ‘trading the Kuril Islands’ would be tantamount to betrayal of the memory of fathers and grandfathers who gave their lives for them.

³ http://www.yomiuri.co.jp/politics/20160509-OYT1T50112.html
However, it is not obvious that a radical solution to the territorial issue is welcome in Japan either. Its existence allows the nation to maintain a sense of psychological comfort on the basis of a ‘wounded national dignity.’ All administrations persistently upholding the territorial claims receive extra voter support. In Japan, there are powerful pressure groups interested in keeping the problem alive. The ‘Northern territories’ campaigns receive lavish budget allocations while some Hokkaido municipalities receive huge government subsidies. Even less motivation to make progress on this issue is shown by those officials to whom political leaders, in fact, delegated the responsibility for its settlement – foreign ministry bureaucrats of both countries, several generations of whom have grown up with the territorial issue and who find the very essence of their existence in reproducing again and again the well worn-out arguments.

Thus Tokyo’s policy of maintaining the “Northern territories issue” as the primary issue of the political agenda of bilateral relations with Russia should be viewed within the paradigm of the general drift towards populist politics in Japan. The dispute with Russia is mostly an internal resource of political capital for Japanese politicians rather than a serious international problem whose resolution would result in a qualitative leap forward in bilateral relations. In other words, in its policy-making towards Russia, the generally pragmatic Japanese political elite remain hostages to public sentiment driven mostly by nationalistic rhetoric. It is well known that much worse political relations and territorial disputes do not stop Japan from developing relations with China and South Korea that are vital trade and economic partners of Tokyo.

Economic ties between Russia and Japan

The economic component in bilateral relations is rather modest. In 2014, Russia’s share in Japan’s total trade turnover was only 2.2%. Russia ranked in 14th
place among Japanese trade partners in exports (1.5%) and 12th in imports (2.8%). Japan’s share in Russian foreign trade was 3.9% in 2014 (seventh among Russia’s partners). There is no substantial cooperation on other issues important to national interests of both countries.

It is true that the natural gas production project with Japan in the RFE has proved more successful than expected with production to be doubled in the future. The Sakhalin-2 project, operated by Russian, Japanese, US and British companies, started production of LNG in 2009 with 20 percent of the output shipped to Japan.

Although export volumes are growing, Russia, in comparative terms, does not sell large amounts of oil and gas to Japan. Russia’s priority export destination in Asia is China, especially in terms of oil and gas. Even if Japan refused to buy Russian oil and gas, this would do little damage to the Russian economy. The situation is totally different from Europe, Russia’s main export destination and the principal source of foreign currency earnings. In 2014, the volume of Russian gas exports to Japan was approximately 700 billion yen. Russia’s share in Japan’s gas market is below 10%, compared to almost 30% in European markets.

Unlike Japan’s ties with China, Russo-Japanese economic relations are not mutually complementary and have a low level of interdependence. Russia is not included in the system of intra-industry division of labor in East Asia and is not integrated into logistical and technological chains of production. All Russian exports to Japan, including energy materials, could easily be substituted by other suppliers. Investment cooperation between the two countries also remains insignificant.

Therefore, neither the Russian nor the Japanese economy would experience serious difficulties because of sanctions, should they remain in place for a long time. Neither country is capable of using sanction policy as an effective pressure tool against the other. The only thing Japan could do is to cut its modernization assistance pro-
grams in Russia. Though very limited in scale, such sanctions and other self-restrictions would have a serious negative effect on the general atmosphere of Russo-Japanese relations, as Russian expectations towards Japan are especially high regarding high technologies.

Despite economic sanctions, Japan will possibly continue to maintain at least some level of economic cooperation with Russia to deny China’s significantly benefiting from the situation by filling the niches created by the withdrawal of Western and Japanese companies. At present, Japan still shows keen interest in involving the regions of Siberia and the RFE into the integration processes of the Asia-Pacific region. The best opportunities for bilateral cooperation exist in the sectors of energy, infrastructure (including the Arctic maritime route), agriculture, housing, energy conservation, healthcare, and IT. Given its wealth and size, Japan could continue to be one of Russia’s most important energy markets for years to come, especially in view of the deep structural reforms of the nation’s energy sector after Fukushima. But these opportunities cannot be realized unless Russia stabilizes its international position and pursues its own deep structural reforms.

Conclusion

Stronger economic relations would inevitably improve the two countries’ importance to each other. If Russia considered Japan a major contributor to the development of the RFE and Siberia, it would increase the role and value of Japan in Moscow’s foreign policy. For Russia, it is very important not to rely on one partner in the Far East, but to have at least several major partners. This is essential for the realization of Russian national interests in this region. For Japan, cooperation with Russia is also indispensable. Ensuring good neighborly and friendly relations with Russia is important for Tokyo’s pursuits to counter-balance China, diversify its energy and oth-
er resource supplies, successfully address regional security challenges including North Korea’s nuclear program, and accomplish many other strategic tasks. Therefore, the main promise in bilateral relations lies in the efforts of both sides to remove the problem of a peace treaty from the center of the political agenda and to concentrate on more productive and positive issues.
Introduction

When contemplating present-day Japan-Russia relations, one is bound to wonder why they are so complicated that even 70 years after WWII ended there is still a generally shared impression that there is no stable ground for both countries to maintain “normal” relations. In this short paper I will first discuss how the difficulty emerged right at the end of WWII and how it formulated itself during the Cold War, remaining unresolved to this day. I will then look at the most recent state of affairs that emerged with the Abe-Putin Era (from 2012 onwards). To conclude, I will analyze the possibility of a breakthrough in Japan-Russia relations.
Section One: the origin of the problem and why it has turned out to be such a difficult issue

From Japan’s point of view, the origin of the territorial claims dividing both countries so fundamentally dates back to the blows it suffered by the hand of the Soviet Union at the closing period of WWII. First, there was betrayal. The Soviet Union attacked Japan on August 8, although the Neutrality Pact was still in force. Second, there was much fear due to the atrocities committed by the Soviets. Around 600,000 Japanese soldiers who were supposed to return home in accordance with the Potsdam Declaration clause 9 were interned and approximately 60,000 died in Soviet captivity. Third, in violation of the Atlantic Charter and the Cairo Declaration, which prohibited “territorial aggrandizement” or “territorial expansion”, the Soviet Union annexed four islands south of the Kuriles, which had been peacefully demarcated to Japan by the 1855 Treaty of Amity and Friendship.

But no matter how many pains it had to endure in 1945, Japan also had to adapt to post-war reality. The San Francisco Peace Treaty, signed on September 8, 1951 became the first major step in the lengthy process. In accordance with Article 2(c) “Japan renounced all right, title, and claim to the Kurile Islands.” Habomai and Shikotan were claimed by Japan as part of Hokkaido, but in the case of Kunishiri and Etorofu the country only objected the Soviet claim, meaning that the four islands were not treated equally by Japan itself. However, although the Soviet Union participated in this conference, it did not sign the treaty itself, meaning that the two countries needed to settle all war-related issues between themselves. Intense negotiations followed from 1955 till 1956. During these negotiations the Soviet side agreed to resolve the territorial issue of Habomai and Shikotan, but

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1 Prime Minister Yoshida’s statement at the San Francisco Conference on September 8, 1951.
the Japanese side also requested the reversion of Kunashiri and Etorofu. Moscow refused any deal on Kunashiri and Etorofu, however, and in the Joint Declaration signed on October 19, 1956, the two parties only agreed “to transfer Habomai and Shikotan” after the conclusion of a peace treaty. But in 1960, in response to the Japanese conclusion of a new security treaty with the United States the Soviet Union informed Japan that “the transfer of Habomai and Shikotan could only be made after the withdrawal of all foreign troops from Japan.”

When Gorbachev assumed the post of General Secretary of the CPSU in 1985 things began to move. Despite some critical delays which cost dear to a breakthrough in the relationship, Gorbachev finally visited Japan in April 1991, establishing an important framework for negotiations for future bilateral relationship. In the communique adopted at his visit, he acknowledged for the first time in history that Kunashiri and Etorofu were the subject of negotiations and that it was necessary to resolve the question of these islands in order to conclude a peace treaty. He did not acknowledge the validity of the 1956 Joint Declaration which explicitly determined the fate of Habomai and Shikotan, however. Four months after his visit to Japan, a three-day coup d’état staged by conservatives took place in August, and the Soviet Union disintegrated on December 25, 1991, to be replaced by the Russian Federation led by Boris Yeltsin.

Foreign Minister Kozyrev of the newly emerged Russian Federation visited Tokyo in March 1992, where he made a so-called non-existing confidential unofficial proposal. Its content was kept totally confidential for years, but when the Russian side began to disclose details of this proposal in 2012, the Japanese side started doing the same.\(^2\) Given that this was a period in which Russia was pursuing the creation of a new country based on de-

\(^2\) The memory of the Japanese side was “to start negotiating the transfer of Habomai and Shikotan; once an agreement is reached, to
mocracy and market economy, and that Japan’s economic might was at its highest peak, whereas Russia still suffered from the impact of the fall of the Soviet Union, one might conclude that this was the best opportunity for a breakthrough from Japan’s perspective. However, Japan’s leadership decided that the Russian proposal was insufficient, because it was too remote from a “four islands in a bunch” solution. The Russian disappointment at this decision resulted in President Yeltsin’s sudden cancellation of his visit to Japan in September 1992.

Following this the 1990s saw several important developments: the 1993 Yeltsin visit to Tokyo and the Tokyo Declaration, which again acknowledged that the four islands issue had to be resolved, but only “indirectly” approving the 1956 Joint Declaration; Prime Minister Hashimoto’s proposal to resolve the issue based on the principles of “trust, mutual interest and long-term cooperation”, and the subsequent informal summit in November 1997 at Krasnoyarsk, where the two leaders agreed to conclude a peace treaty by 2000; Hashimoto’s concessionary proposal “to delineate boundaries at the northern side of the four islands and tobunnokan (for some time to come) Japan will recognize Russia’s administrative right” at Kawana in April 1998; and Yeltsin’s concessionary counterproposal “to conclude two treaties, the first treaty designating the four islands as special economic district comprising a possible joint legal system, the second treaty delineating the frontier in order to achieve the conclusion of a peace treaty” made to Prime Minister Obuchi during his Moscow visit in November 1998.

But neither side accepted the other side’s concessionary proposal made at Kawana and Moscow. Real progress only came with Putin’s rise to power in May 2000.

3 This can be considered to be the maximum concession based on the principle of the “sovereignty of four islands in a bunch” solution.
He made a critical visit to Tokyo in September 2000, during which he orally acknowledged the validity of the 1956 Joint Declaration. The seven months of negotiations that followed resulted in the Irkutsk Mori-Putin Statement on March 25, 2001. For the first time in Japan-Russia relations, the 1956 Joint Declaration and the Tokyo Declaration were confirmed in the same document, and even Mori’s proposal to hold parallel negotiations on Habomai-Shikotan and Kunashiri-Etorofu was not negated by Putin and met with his response “Posmotrim (Let us see).” Serious talks about the conditions of the transfer of Habomai-Shikotan and the fate of Kunashiri-Etorofu were about to start.

But then Mori was replaced by Junichiro Koizumi, and political turmoil resulting from the power struggle between the so-called reformers and conservatives in the LDP started. Russian policy became a part of this struggle and “conservative fundamentalists” criticized “gradualist pragmatists” as too weak and accommodating toward Russia. Koizumi allowed this criticism to guide the media, and the Japanese side de facto withdrew from the parallel negotiations. Relations improved again after Abe replaced Koizumi in 2006, and for several years there were talks on resolving the territorial problem by “dividing the space into half.” But ultimately nothing came about and relations plunged in 2009, when Prime Minister Aso stated in Parliament that the official position of Japan was that “the Russian occupation of the four islands was unlawful.” President Medvedev took this statement as an open provocation at a time when Russia was preparing for serious negotiations, resulting in his visit to Kunashiri as the first Russian president ever in November 2010.

Section Two: present window of opportunity, open since 2012 to this day

The present window of opportunity was again opened by Prime Minister Putin’s press conference in
March 2012, just before his re-election to the presidency. He stated very clearly that if he would be re-elected he wanted to achieve two things, namely to develop substantial economic relations, and to resolve the territorial problem through “a draw (hikiwake, in Judo terminology)”, meaning that neither side would lose. The Noda Government of the DPJ was not ready to respond immediately, but when Abe returned to the stage as Prime Minister in December 2012 he changed the Japanese approach.

Abe visited Moscow in April 2013. Around fifty top businessmen accompanied him to demonstrate Japan’s interest in developing economic relations, and Abe proposed a “two plus two” meeting of Foreign and Defense Ministers. For Japan the only countries thus far holding that framework were the United States and Australia. On the territorial problem the two sides agreed to “conclude a peace treaty through a solution acceptable to both sides.” Although the negotiations were difficult, relations began to warm up, culminating in the opening ceremony of the Winter Olympics held at Sochi, on February 7, 2014. Putin received Abe warmly and the Japanese media reported favourably on the developing relationship.

But this situation saw a complete drawback when civil war broke out on 18-21 February at the Maidan Nezaleiznosti in Kiev between rivalling pro-Western and pro-Russian factions. The swift annexation of Crimea by Russia, the growing tensions in Ukraine, the stern criticism against Putin on account of his Crimean and Ukraine policy by the US-led G7 finally resulted in the de facto expulsion of Russia from the G7 and the implementation of economic sanctions.

The policy adopted by Abe appeared to follow two objectives. One was to stay in line with the consensus reached by the G7 and to join all major policy decisions including economic sanctions, and the other was to minimize the impact of these sanctions by implementing small-scale sanctions at the latest possible moment. After all, his relationship with Russia was important. But in the autumn of
2014, when Japan was adopting its fourth sanction, Russia had reached the point that “enough was enough.”

Crimea and Ukraine have always played a very important role in Russian history and geopolitics. Crimea, with its history of the Crimean Cossacks and the Battle of Sevastopol during the Crimean War of 1853-56, has created an enduring memory of Russian pride and national dignity. Throughout the course of Russian history Ukraine has occupied an important geopolitical position. It is a crucial buffer between Russia and Europe. Russia simply could not afford a Ukraine adversarial to Russia and oriented exclusively towards Europe, particularly in its Eastern Region. For Russia regaining Crimea and ensuring a buffer state in Ukraine of at least several eastern provinces was a matter of survival, honor and dignity. This was not understood by all.

How would Russia be able to resolve a territorial issue with a country that did not show at least some understanding of these Russian core values? So why should it make a concessionary decision to bring the situation to a “draw”? Thus, from the fall of 2014 onwards bilateral political relations went from bad to worse. On September 2, 2015, Deputy Foreign Minister Igor Morgulov, the chief Russian negotiator at the high-level officials talk with Japan openly stated that the “peace treaty negotiations might continue, but there would be no talks on territorial negotiations, because all issues had been resolved 70 years ago.” The message that Russia would accept only a peace treaty without resolving the territorial problem did not sound unfamiliar to the Japanese side. It was, in fact, the Russian viewpoint from the latter part of the 1970s that had been consistently voiced by Foreign Minister Gromyko, only to be relinquished when Gorbachev assumed power in 1985.

But to the amazement of many this was not the end of the story, which is partly also due to the events that un-
folded. Putin’s international position, in fact, seemingly improved due to the active Russian participation – militarily and diplomatically – in the totally confused situation in Syria where ISIS and President Asad refused to back off. This certainly made an impact which the other actors engaging in this conflict could not ignore. Even in the case of Ukraine Russia’s close attachment to the eastern provinces such as Donetsk and Lugansk was too obvious to ignore, so that the Minsk Agreement became the generally accepted basis for a future settlement, which included Russia.

At the same time, Abe’s Russian policy of “chasing two rabbits with one stone”, which was doomed to fail by the fall of 2015, might have produced some results. On February 9, 2016, Abe and Obama had telephone talks which dealt primarily with the issue of the North Korean nuclear weapons. On February 23 several Japanese media reported that Abe had been asked by Obama to postpone his programmed visit to Russia until after the Ise G7 Summit, but Abe had not agreed to this, thus effectively defying Obama. In the meantime Putin’s administration again began to respond to Abe’s call for dialogue. Lavrov made a visit to Tokyo in April. Before his visit, on April 12, he held a press conference, stating that he did not refute the Irkutsk Statement, that he understood its gist as continuing talks to resolve all issues, including the question of the sovereignty of the four islands, and that whereas the Irkutsk Statement was just a statement, the only document that had been ratified by both sides was the 1956 Joint Declaration. In short, Lavrov’s statement gave the impression that Russia was beginning to move its position back towards Irkutsk in 2001.

As it turned out, the Abe-Putin Meeting at Sochi on May 6, prior to the Ise-Shima G7 Summit, brought some excitement to those who were following Japan-Russia relations. On the economic front, and as a follow-up

5 Yomiuri Shimbun, February 24, 2016.
to what had been agreed during his April 2013 visit to Moscow, Abe proposed an “eight-point economic cooperation program”, which was apparently received well by Putin. Speaking about the territorial problem, when Abe appeared in front of the press after his meeting with Putin, he stated in a somewhat exalted mood that “I have received a solid response (by President Putin) to make a breakthrough, putting down the stagnation thus far accumulated,” “We (the President and I) were in agreement to resolve this issue by the two of us,” and that “A new approach which will be free from past ideas shall be sought (by us) so as to step up the negotiations.”

Section Three: what about the “new approach” to make a breakthrough?

Obviously, those following Japan-Russia relations and the Abe-Putin Meeting in Sochi were wondering what is this “new approach” could be, because neither Abe, nor Putin, nor anyone else in a responsible position disclosed what this “new approach” was, and none of them should have. One may reasonably assume, however, that it has to be a solution that includes a “draw” where neither side loses. But further leaks of any kind are not permissible.

In order to give my own outline of this “new approach” I will introduce herewith a proposal I made public in July 2013. It was a joint proposal with Ambassador Panov, with whom we worked closely from the time of the preparation of Gorbachev’s visit to Japan in 1991 until the issue of the Irkutsk Joint Statement. We labelled this proposal of hikiwake the “two plus alpha” solution. So what did this “two plus alpha” solution entail?

The Panov-Togo “two plus alpha” proposal was published in the Nezavisimaya Gazeta on July 18, 2013, and on the following day in the Asahi Shimbun with the full translated text in the Digital Asahi. Our idea had been to base our hikiwake proposal on actual documents already in place in our bilateral talks. When Putin became Presi-
dent the first key document he referred to was the 1956 Joint Declaration. The Panov-Togo proposal was therefore based on the 1956 Joint Declaration to settle the destiny of Habomai-Shikotan, as was written in this document. As for Kunashiri and Etorofu, the Panov-Togo proposal referred back to President Yeltsin’s proposal in November 1998 in Moscow to Prime Minister Obuchi to establish a joint economic zone in which a joint legal structure could be incorporated and attributed to the four islands. Our proposal stated that this idea should be applied to Kunashiri-Etorofu exclusively.

True, the Panov-Togo joint proposal left several important issues unresolved, such as the moment to conclude the peace treaty and the demarcation of the border. But, in our view, these complex issues could and should be resolved by the wisdom and hard work of the diplomats who are currently in a responsible position.

Without prejudging in any way what kind of “new approach” Abe may introduce in the end, let me conclude by examining the likelihood of the success of the Panov-Togo joint proposal. As stated above, this naturally depends much on whether an answer to this “new approach” (or not) that would be satisfactory to both sides has been found. But suppose that such an answer has been found, will Abe accept it and resolve the issue or not? Let us examine this, using the three layers of IR theory as developed by Kenneth Waltz.

First, let us consider the individuals, and particularly the leaders who are in a position to make decisions. Shinzo Abe has two vital reasons to make a new and bold decision. Like all ambitious prime ministers Abe is motivated to resolve the territorial problem with Russia, which has been left unresolved since the end of WWII. He may be willing to take this course, even if he meets opposition from domestic hardliners. His mentor-politician was his grandfather Nobusuke Kishi, whose legacy is to have taken leadership in revising the Security Treaty with the U.S. in the face of much protest. Abe’s second mentor-pol-
itician was his father Shintaro Abe, and his most regretted unfinished agenda was the “normalization of the relationship with Russia”. Shintaro Abe, who met Gorbachev in Moscow in January 1990 after leaving his post of Foreign Minister, provided already an effective stimulus to the negotiations. But his health waned and his last public appearance in a wheelchair was when he met Gorbachev during the latter’s Tokyo visit in April 1991. Shinzo Abe therefore has the motive to achieve a breakthrough and fulfill his father’s unrealized vision.

Second, and looking at the domestic political situation, a large number of people are not interested in territorial issues and may follow any decision which Abe may make, based on the *hikiwake* principle. Among those who are constantly concerned about the territorial problem with Russia some are already recognizing that time is running short for Japan if it wants to make a bold decision to change the current impasse. But the so-called nationalist hardliners who are stuck with the “four islands in a bunch” solution would cry out loud once a genuine possibility for an agreement emerges. Abe’s credentials as the prince of conservative politicians allow him to make a bold decision, and the nationalist hardliners may ultimately have no other alternative but to follow him.

Third, the international situation surrounding Japan is very complex. On the one hand, Abe is facing the very serious issue of the rise of China. His primary responsibility is to settle relations with China through deterrence and dialogue. His natural foreign policy objective then is to enjoy improved relations with all major neighboring countries in East Asia, and this certainly includes Russia. So strategic calculus swings the pendulum towards a bold decision. But he also faces the inherent contradiction that too bold a decision might harm his relationship with the United States, which under the Obama administration has been highly critical of Putin, denouncing him as a destroyer of “post-Cold War international order”. Abe may need to come up with a new position, which
would be along the following line: “For Japan the single greatest threat it is facing is China and not Russia. Japan’s primary attention therefore in its foreign-security-defense policy is China and Japan needs to do everything necessary to face China, based on its policy of deterrence and dialogue. But from this perspective the wisest policy of the G7 would be to keep Russia within its friendly circle, and the critical policy necessary to achieve this is to treat Russia with respect, as a great power which needs to preserve its dignified position in the international arena. It is therefore rational and justifiable to recognize the historical bond between Russia and Crimea, as well as the geopolitical necessity to view Ukraine as a buffer state between Russia and Europe. These should be the common goals of the G7 and would also be in the best interest of the G7, and Japan is going to take a leadership position towards that direction.”

Conclusion

Will Abe succeed in resolving the territorial problem with Russia? At the point of writing of this paper I do think that there is in Abe a definite willingness and readiness to focus on this issue. Abe’s domestic position as the prince of conservative leadership also allows him to make a bold decision. So his greatest challenge comes from the international situation, in particular vis-à-vis the U.S., and possibly other G7 countries such as Canada or Great Britain, who also view Putin as the destroyer of the post-Cold War legal and political order. However, in the end there may be a little more perspective for Abe to make a bold decision than usually thought. After all, the main political objective of Abe’s greatest mentor, his grandfather Nobusuke Kishi, was to gain a more autonomous position vis-à-vis the United States, based on the acute sense of pragmatism to not antagonize it. Why cannot Abe follow in his grandfather’s footsteps?
Chapter 4. Russia and Japan: Promoting Cooperation and Security in the Asia-Pacific Region

Russia and Japan are important players in the Asia-Pacific region. They share many common interests and responsibilities to promote greater security and prosperity. Moscow and Tokyo have recognized the centrality of the Asia-Pacific region to their own economic wellbeing and stability. Both countries are becoming more active in regional affairs. Both countries prioritize nuclear non-proliferation and engagement in multilateral forums. Both seek to encourage peaceful resolution of disputes among regional states.

In recent years, the relative importance of the Asia-Pacific has dramatically increased in Russian foreign policy. Within its ‘turn to the East’ Russia has prioritized relations with key regional players, including Japan. Russia and Japan are now cooperating in such areas as economy, energy, and maritime safety. But much more can be done
to promote understanding and friendship between the two neighbors.

The crisis in Russia’s relations with the West that began in 2014 has put pressure on Russia-Japan relations as Tokyo remains an ally of the United States and a member of the G7; plus Japan has imposed sanctions on Russia. But the crisis in Europe has not undermined the importance of bilateral relations for both Russia and Japan. Despite existing differences, Japanese and Russian leaders have taken steps to prevent the relationship from deteriorating, including those over territories and maritime jurisdiction.

Cooperation in the following areas will contribute to stability and prosperity of the Asia Pacific region and are worthy of further consideration.

**Regional security architecture**

In recent decades, there have been drastic changes in the strategic environment of the Asia-Pacific region and sources of instability continue to exist. Paucity of mechanisms for ensuring security in the region is a matter of concern. Currently, the US bilateral alliance system, which was a stabilizing and balancing factor in the Asia-Pacific region in the past, is the only such mechanism. However, Russia’s diplomatic and political approaches to Asia-Pacific regional security architecture are based on the premise that the prevailing US alliance system does not fit the contemporary economic and security environment. Fundamental changes in the region require a new approach. Russia calls for a more balanced and inclusive system based on the principles of equality and ‘indivisible security’, the precept that one country cannot increase its own security at the expense of another country’s security.

Because of differences in approaches to regional security architecture, it could be helpful if Russia and Japan continue to hold regular high-level bilateral consultations on regional security issues. Specifically, such dialogue
should focus on areas in which both sides share common purposes, such as nuclear non-proliferation and freedom of navigation.

Russia and Japan can strengthen cooperation on nuclear non-proliferation both on policy level, such as a coordinated approach toward North Korea, and on the operational level, such as export controls. Russia and Japan can cooperate on practical measures to enhance the capacity and legal framework of developing countries to prevent them from becoming conduits for illicit trade related to proliferation of weapons of mass destruction. In this connection, it is important to strictly implement all UN resolutions adopted to comply with the regime of nuclear non-proliferation.

Russia and Japan could also develop a Russia–‘US–Japan alliance’ dialogue along the lines of the Russia–NATO Council. Such a platform could be used to create confidence and security-building agreements, including transparency measures regarding military doctrines and regional deployments, as well as develop cooperation to address emerging threats and security challenges.

It is essential to strengthen efforts to enhance confidence and promote cooperation through multilateral frameworks. Regional mechanisms and institutions, such as the ASEAN Regional Forum, the East Asia Summit, APEC and the ASEAN Defense Ministers Meeting–Plus, represent important dialogue platforms to address new security threats including terrorism, piracy, drug smuggling, etc. Promoting cooperation, exchange of information and confidence building through these frameworks are conducive to regional stability by preventing misunderstanding and reducing mistrust as well as expanding areas of common interest.

China’s rise

The rise of China is the most significant development in the Asia-Pacific strategic environment and poses
most opportunities and challenges. China’s increased military capability and assertive behavior can have serious repercussions in view of increasing tensions over maritime disputes in the region.

Tokyo and Moscow differ in their approaches to China’s rise. Japan-China relations are a mix of cooperation and competition. Japan has been willing to confront China openly about disagreements and disputes on territorial, security and political issues. Moscow has purposefully minimized areas of disagreement in its relationship with Beijing and not allowed its partners’ disputes with China to affect its ties with Beijing.

According to the prevailing view in Russia, China’s assertive behavior is an objective reflection of its growing strength and an expression of its dissatisfaction with the status quo regarding China’s current role in the region. Therefore, it is in the interest of all regional powers to develop a security architecture that includes China. Russia has its own concerns about China and therefore supports the inclusion of China in a new architecture on an equal basis with others.

It must be recognized that policies to contain China are inappropriate and counterproductive and that efforts should be made to strengthen comprehensive cooperation with China so that it will play a constructive role in the region. Efforts should be made to involve China in bilateral and multilateral consultations that would prevent uncontrolled military buildups and unintended escalation of tension. Greater transparency and confidence-building measures are key to achievement of this goal. In this context, bilateral defense hotlines, bilateral strategic and defense dialogues and exercises between Russia and Japan would be worth further consideration.

North Korean issue

Political and military developments in North Korea are some of the most urgent challenges to the security of
the Asia-Pacific region. It is necessary to continue to urge North Korea to refrain from further provocative actions and to take steps toward denuclearization.

Russia, as a responsible nuclear power and permanent member of the UN Security Council, supports strengthening the regime of nuclear non-proliferation and is ready for dialogue on this issue. Russia opposes any actions that could undermine strategic stability in the region.

Russia regards the Six-Party Talks on denuclearization of North Korea as a significant instrument to pursue this goal. However, stalled negotiations do nothing to resolve North Korean nuclear and missile development and improve political and security situations in the region. Moreover, negative trends are gaining momentum as Pyongyang continues to defy UN Security Council resolutions. Mistrust remains among the other regional powers concerning the intentions of the negotiating parties. Amid increasing US-Russia tensions and mounting differences in approaches toward regional security between the United States and China as well as Japan and China, there is a strong risk that North Korea may once again become a ‘buffer’ state between Russia and China on the one hand, and the United States and its allies on the other. Such a development would be disastrous from every point of view: for the inter-Korean dialogue and prospects for the Korean reunification, for regional security and economic integration in the Asia-Pacific region, and for national development projects, including the modernization of the Russian Far East. This development would result in reviving the Cold War atmosphere in the region, with the North Korean regime being the sole beneficiary.

Therefore, it is necessary to look at different ways to resume multilateral dialogue on the North Korean issue. For example, Russia and Japan could engage in five-party consultations with the United States, the Republic of Korea and China. Close cooperation between these five parties is needed to solve the outstanding issues and achieve
peace and prosperity on the Korean Peninsula. Their dialogue should address all possible challenges, such as nuclear weapon and missile tests, and consult in advance about coordinated responses.

**Economic cooperation**

Significant economic engagement is a necessary condition for establishing balanced security structures in the Asia-Pacific region. Economic development in the Russian Far East and Eastern Siberia is crucial for Russia’s growing integration into the Asia-Pacific region, and it has been identified as a high priority by the Russian government. Moscow seeks to attract foreign investments to the region in order to develop local economies. Sakhalin-1 and Sakhalin-2 oil and gas development projects, which began in the mid-1990s, are examples of successful cooperation with international partners, including Japanese corporations. Currently, Russia intends to diversify exports to include more value-added sectors such as manufacturing and services. The Russian government also seeks to invite Asian, and most of all Japanese, automakers, agricultural producers and service industries to establish joint enterprises in the Russian Far East.

Preparations for the 2012 APEC summit in Vladivostok led to a review of Russia’s current posture and long-term strategy in the Asia-Pacific region; it also forced the government to pay more attention to the economic needs of the Russian Far East. With large-scale public investment in infrastructure development in Vladivostok for the summit itself, Moscow intends to make the city and nearby areas more attractive to potential Asian investors.

Today, the Russian Far East plays two roles in Russian engagement in the Asia-Pacific region. Firstly, Russia intends to leverage Asian economic demands for oil and gas into development of East Siberian and Far Eastern hydrocarbons which require significant investment and special technology to bring them to the market. Sec-
ondly, Russia aspires to have the Far East serve as a transit corridor across the Eurasian landmass, bridging Asia and Europe.

Potential gas reserves in Eastern Siberia and the Far East will allow Russia to develop new centers of gas production to meet domestic demand as well as to increase exports. Moreover, the demand for gas in the Asia-Pacific region and the favorable geographic location of Russian gas resources create ideal conditions for Russian natural gas deliveries to the Asia-Pacific region.

Japan and Russia can work together with other international partners to promote a more open and attractive business environment in the Russian Far East and Eastern Siberia for both Russian and foreign investors.

Conclusion

Russia and Japan are major countries in the Asia-Pacific region with both the will and capacity to contribute to regional security and stability, and they share wide-ranging interests and areas of cooperation. Further development of relations between Russia and Japan could help achieve greater strategic balance in the Asia-Pacific region that is consistent with both countries’ objectives.
The Russian Far East (RFE) has been among focal points of Japan-Russia cooperation. Of four Japanese consulate-generals to the Russian Federation, three are in the RFE: Khabarovsk, Vladivostok and Yuzhno-Sakhalinsk. Noticeable achievements so far, however, are limited to the energy sector.

This article focuses on the energy sector as a traditional and primary area of Russo-Japanese cooperation. The other sectors discussed are the transit transport through Russia and industry development in the RFE. This article argues significance and function of regional multilateral cooperation for the sake of Russia and Japan.

Energy cooperation

After Russia’s financial crisis in 1998, trade turnover between Japan and Russia had grown rapidly un-
til 2008 driven largely by exports of machinery, including automobiles, from Japan to Russia’s expanding consumer market. The 2008 global financial crisis hit the Russian economy severely, shrinking its import capacity which made Japanese exports to Russia decline. Meanwhile, Japan’s imports from Russia have advanced relatively steadily in this century. Their growth was mostly thanks to the expansion of energy resource trade.

Traditionally, Japan’s major import items from Russia have been natural resources and raw materials. The composition, however, has changed dramatically in this century. In 1998, the major import items were nonferrous metals (38.1% of total imports), fish (30.9%), wood (15.0%) and coal (6.6%). In the peak year of 2014, while total imports had grown seven times since 1998, oil and gas comprised three quarters of the total: crude oil – 43.0%, oil products – 6.3% and natural gas (LNG) – 26.9%. Among noteworthy developments during this period were the beginnings of oil production (1999) and gas production (2009) in the Sakhalin-2 project, start of oil production in the Sakhalin-1 project (2005), and the start of opera-
tions of the East Siberia-Pacific Ocean (ESPO) oil pipeline (2009).

Although all of these projects are important for Japan-Russia economic relations, I would like to focus on the ESPO pipeline, as it gives us an insightful lesson. The ESPO pipeline transports crude oil extracted in East Siberian oil fields for export to Asia-Pacific markets. The trunk line runs from Tayshet in the Irkutsk Region to the Kozmino oil loading port in Primorsky Territory, with a branch line to the Chinese city of Daqing (Heilongjiang province), the northern centre of China’s oil industry.

This is a Russian-Chinese joint project, as the construction of the branch line was an outcome of successful bilateral negotiations among state-owned enterprises from both countries. There are no Japanese investments and loans to this project.

Japan, however, played a substantial role in making the idea come about by supporting this project. In January 2003, Prime Minister Junichiro Koizumi visited Moscow and expressed his “careful attention” to this project. The Japan-Russia Action Plan, the outcome of the summit meeting with President Vladimir Putin, stipulated that “both sides will undertake reviews at the governmental and private-sector levels on the advancement of specific cooperation in the realization of energy transportation” in the Russian Far East and Siberia. Four months later, in May 2003, the Russian government endorsed the plan with the main line to the Kozmino port and a spur to China. This announcement changed an agreement from the late 1990s in which the Russian private oil company Yukos and the Chinese state-owned company CNPC had agreed to construct a pipeline that would supply petroleum exclusively to China. Moscow’s decision to direct the main line to the Pacific coast seemed to tilt the competition between the two major Asian oil consumers in favour of Japan.

The record to date proves that the decision was right and beneficial for all. The pipeline system has stimulated
the development of oil fields in East Siberia and the Russian Far East, while Japan, China, and South Korea as well as other Asian economies have been able to diversify their oil procurement sources, which are highly dependent on the Middle East.

The lesson is that multilateral regional cooperation is good for all, and there should be more areas with great potential. In my view, cooperation in natural gas is another promising subject.

Natural gas development projects are more complicated and require careful consideration before implementation than oil field development projects. Natural gas projects need stable business conditions during a long project life. At least so far, both its technical features and trade practices make the natural gas business highly complicated.

In this regard, it is quite natural that, after the successful cooperation in the ESPO project, both governments found a potential joint project in the gas sector that would upgrade bilateral cooperation, namely the Vladivostok LNG (liquefied natural gas) plant. The success of a gas project would mean that bilateral cooperation has reached a new stage with more stable and deeply interconnected relations.

The Vladivostok LNG was the frontrunner. The situation, however, changed when Russia and China concluded an agreement in May 2014 to build a natural gas pipeline from the Russian Far East. According to the contract, Russia’s gas monopoly Gazprom will sell 38 billion cubic meters of natural gas annually to CNPC for 30 years. The contracted amount is so huge that all gas produced in the Russian Far East and East Siberia in the near future, which will most likely be gas from the Chayanda gas field now under preparation for production, must feed the pipeline to China, not the Vladivostok LNG. In October 2014, Gazprom Chairman Alexey Miller referred to the possibility of pipeline gas exports to China as an alternative to
the Vladivostok LNG project.¹ To date there are other options to transport Russia’s natural gas to Japan. They include the expansion of the existing Sakhalin-2 LNG; the Russian Far East LNG project proposed by Rosneft; the Sakhalin-Japan pipeline; and the Vladivostok-Japan pipeline. In any case, we should keep the lesson from the ESPO in our minds.

Transit transportation through Russian territory

As widely discussed, the Russian Far East has great potential to play the role of Russia’s gateway to the Asia-Pacific region (APR) which includes function as a transport hub for foreign trade goods. At the same time, “integration into the world transport system and realization of transit potential” is one of the six objectives of the “Transport Strategy of the Russian Federation until 2030,” approved by the Government in 2008. In this context, the

RFE should be a hub for at least two transit routes: trans-Eurasian transit and intra-regional transit (Figure 2). Their major characteristics and future prospects are summarized in Table 1.

Trans-Eurasian transit

The trans-Eurasian transit has the famous brand name of the “Siberian Land Bridge (SLB)” transportation service connecting the APR and Europe\(^2\)/Central Asia. SLB is a proven, packaged transport service product with more than 40 years of history. The Trans-Siberian Railway (TSR) is the backbone of the service and able to transport container freight much faster than the marine transport route through the Suez Canal also known as the “Deep Sea” service. Stable and improved operation in re-

\(^2\) In this context, “Europe” includes European Russia.
cent years has reduced the negative image established in Russia’s socio-economic disorder of the 1990s. As a result, the number of international containers transported through the TSR was 726,000 TEU (twenty-foot equivalent unit) in 2014, an increase by ten times from 72,000 TEU in 1999.

SLB’s major challenge is severe competition with the Deep Sea service which offers lower prices. Taking into account the speed of SLB, it is a rational marketing policy that SLB focuses on high-value freight that requires quick delivery in order to reduce inventory costs. Roughly speaking, one million TEU of annual transport (approximately 5% of the total East Asia - Europe container transport) would be a reasonable short-term target which can be achieved through operation improvement and elimination of bottlenecks.

In a broader perspective, the recent policy focus on Eurasian cooperation is a tailwind for SLB. The Eurasian Economic Union (EEU), the “One Belt One Road,” initiated by China, and the “Eurasian Initiative,” proposed by South Korea, together highlight the role and potential of overland transport on the continent. Economic development of the Eurasian inland area, including Central Asia, requires improved transportation services.

**Intra-regional transit**

Potential of intra-regional transit transport through Primorsky Territory, or Primorye, began to draw attention in 1990s. The initial and well-known proposal was to develop the downstream basin of the Tumen River as an international port city. Although this idea did not make any progress, the concept of transporting freight cargo originating from, and bound for, China’s northeast inland provinces of Jilin and Heilongjiang, survives and is at the

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3 Coordinating Council on Trans-Siberian Transportation International Association (CCTT). “Annual TSR Digest.” 2015, p. 14
trial and pre-commercial stage of its realization. Russia promotes it under the projects Primorye-1 and Primorye-2.

This transport service would change the economic geography of Northeast Asia, turning backyards into frontiers of new economic exchange. It opens the shortest access to the sea from inland North Asia, providing it with possibilities to promote international economic exchange. Meanwhile, the Sea of Japan area would become a new center of economic integration. Many Japanese port cities on the west coast and Korean port cities on the east coast lag behind major economic centers in their respective countries. The new transport routes should stimulate regional development.

There have been several trial shipments so far, which confirmed potential of the routes and revealed bottlenecks and barriers. Among the trials were those conducted by Tottori and Niihata prefectures of Japan from 2010 to 2012. The Chinese side is even more active. They have already stepped into the business start-up stage. Jilin Province Northeast Asia Railway Group Co., Ltd. commenced a regular transportation service from Hunchun in Jilin to South Korean Pusan through the Russian port of Zarubino in May 2015. Soon, after several experimental operations, SWIFT Transport Group, a Tianjin-based logistics company, started a commercial transportation service from Harbin/Suifenhe in Heilongjiang to Pusan through Vostochny, the largest container handling port of the Russian Far East.

The intra-regional transit, however, has yet to develop well as it confronts various challenges. In short, the main problem can be described as a vicious cycle involving the service providers and the clients. On the one hand, skepticism and lack of confidence about the cargo market expansion on the providers’ side constrains their willingness to invest to upgrade transit services. This, on the other hand, is exacerbated by the “skepticism about the service content” among the potential clients who hesitate
to use the services.\textsuperscript{4} Thus, lack of confidence on both sides hinders their own actions and, eventually, those of their counterparts.

In order to break this vicious cycle, intervention from the public sector is essential, supporting private initiatives with subsidies and/or soft loans, coordinating interests of various stakeholders and players, and improving the institutional environment for international transport. Although infrastructure development has great importance, solving non-physical impediments is also crucial for the newly launched multimodal transport services to survive the start-up stage and develop further.

**Regional cooperation for transit transport**

Obviously, development of transit transport requires multilateral cooperation as there are large numbers of players in various countries. A unique platform for the regional cooperation in NEA is the Greater Tumen Initiative (GTI), an intergovernmental organization of China, Mongolia, Republic of Korea and Russia. The transport sector is among the highest priorities of GTI cooperation. Currently, they are implementing the GTI Regional Transport Strategy and Action Plan, endorsed at the 3\textsuperscript{rd} Transport Board Meeting in August 2013. It is the key outcome of the GTI Transport Corridor Study\textsuperscript{5} in which an international team of experts proposed to promote six transport corridors across North East Asia, or the trans-GTR region in their terminology. They focus on promotion of sea-land multimodal transport which totally conforms to Russia’s intention to develop the international corridors of Primorye-1 and Primorye-2.


\textsuperscript{5} GTI. “Integrated Transport Infrastructure and Cross Border Facilitation Study for the Trans-GTR Transport Corridors.” 2012
Significance of the GTI comes not only from its proposal on corridor development but also from its inclusiveness. Although Japan is not a member of the GTI, the local government of Tottori prefecture plays an active role within the GTI Local Cooperation Committee, particularly on the issues of sea-land multimodal transport promotion. The GTI established the North East Asia EXIM Bank Association with participation of the EXIM Bank of China (China Eximbank), the Development Bank of Mongolia (DBM), the EXIM Bank of Korea (KEXIM) and the Bank of Development and Foreign Economic Affairs of Russia (VEB). They are considering the Zarubino port construction project as the first joint project within the framework of the Association. Thus, the GTI offers unique opportunities for promotion of intra-regional transit.

As for trans-Eurasian transit, the Coordinating Council of the Trans-Siberian Transportation International Association (CCTT) has functioned as a focal point of cooperation and coordination. Its office is in Moscow with a Russian Secretary-General.

**Industrial development**

Before the APEC summit in Vladivostok in 2012, policies to develop the Russian Far East focused on infrastructure development. The logic was that infrastructure in the region is very weak and its development is urgent. Such thinking still appears in various policy documents, including the Strategy for Socio-Economic Development of the Russian Far East and Baikal region until 2025 and the Federal Target Program “Economic and Social Development of the Far-East and Baikal Region until 2018.” The current policy of the Ministry for the Development of the Russian Far East, however, has shifted emphasis on the attraction of private investment. It has introduced several schemes and instruments to attract investments, including “Territories of Advanced Socio-Economic Development (TORs),” “Free Port of Vladivostok (SPV),” “One
Hectare in the Far East,” and other measures to support private investment projects.

Under the TORs and the SPV, investors can enjoy various preferential treatment, such as tax exemptions, when they are registered as “residents” after certain screening processes. As of the end of June 2016, there are 12 TORs officially designated and one in the process of finalization. There were 58 registered TOR residents at the end of June 2016 and the number is growing steadily. The SPV, which embraces 15 municipalities in southern Primorye, has 41 registered residents as of July 1, 2016. Attractiveness of these special economic zones is obvious in that nearly 100 investors have established businesses since their creation.

Not surprisingly, Japanese business circles express interest in the new economic zones. The case of JGC Corporation, however, might surprise those who know the “excessive” cautiousness of Japanese business people while investing in Russia. Its subsidiary, “JGC Ever Green,” was the third quickest resident, registered in October 2015. It produces vegetables in green houses in the “TOR Khabarovsk.” This case is one of the few projects that have already launched production in the TORs. It was fortunate that their site was included into a TOR territory after they had started their investment process which gave this project great advantage. Nevertheless, this story should not understate this project as a long-awaited best-practice model of Japan-Russia business cooperation in the Russian Far East. Success of JGC Ever Green should be a more convincing argument than thousands of beautiful words in promotion booklets and videos. If the Russian side makes full use of this example, it can expand the circle of Japanese business people interested in the Russian Far East and make potential investors step into the region. There are positive prospects for other Japanese companies to follow the JGC Corporation.

The Russian Government keenly wants to achieve an innovation-based economy. One of their policy direc-
tions is to shift from exports of raw materials to value-added products. The original idea to establish the TORs in the Russian Far East was to promote export industry. The question is what kind of goods to export. With abundant natural resources and a small population, in my view, the most promising business model in the region is raw material processing industries exporting to foreign markets.

Due to the Russian Far East’s small population, there is very little chance to develop labor intensive industries, such as assembly industries, which was essential to the Chinese model of rapid economic growth. In other words, capital-intensive industries have better chances to lead economic growth in the Russian Far East.

Proximity to the growing Asia-Pacific market and the limited size of the local market together make exports more attractive than shipments to Russia’s domestic market. The author, however, would like to emphasize the severe competition in manufactured product markets in APR. China has grown as the world’s factory and gained a substantial portion of the global market, but Japanese and South Korean industries have made great efforts in cost reduction in order to compete with Chinese products. Consequently, the markets are full of highly competitive products from these countries.

Recent developments in the RFE suggest to me that local people may understand this situation. A certain portion of the residents of the TORs and SPV do not intend to export. As in the case with JGC Ever Green, most food industry projects seem to focus on the domestic market, even though no one can deny the potential for export in the mid- to long-term future. There are many other projects that do not appear export-oriented, including logistics and other service sector projects. Apparently, this is a change of direction from the initial priority of export-orientation. However, domestic market orientation is quite understandable, as a pragmatic approach, to make investments profitable, given the Asia-Pacific’s highly com-
petitive markets and the current national policy of import substitution promotion.

Of course, there are some other problems with the new investment attraction policies most of which are relatively technical and usually accompany the implementation process of any novel strategies and concepts. In general, however, the initiatives of the Ministry for the Development of the Russian Far East have placed a cornerstone for international industrial cooperation in the Russian Far East.
This year marks the 60th anniversary of Joint Declaration signed by the Soviet Union and Japan on October 19th, 1956, which meant not only re-establishment of diplomatic relations between the two countries but also created an environment for their interaction in various fields, including economy. As we will soon mark this milestone, we must set the future direction for our economies.

There have been better times and worse times in bilateral economic relations caused by both domestic and external factors, but Russo-Japanese economic cooperation has never reached its full potential, with both sides repeatedly expressing a consensus in describing them as under developed.

Territorial dispute and the problem of a peace treaty are conventionally cited as impediments to a more profound bilateral economic partnership. While these issues actually affect the matters of trust and reliability, the
very structure of economic relations, essentially an exchange of natural resources for manufactured goods, defines the limitations and risks for both sides. Nothing in global politics and economy is certain but an excessive reliance on energy ties for fostering friendly relations is problematic. Basing Japan–Russia ties primarily on energy runs the risk that the bilateral relationship will become a prisoner to market forces, such as fluctuations in oil prices. For example, the recent fall of oil price and the depreciation of the ruble have drastically reduced the bilateral trade turnover, thereby completing another vicious circle of overdependence on fuel exports and imports as a pillar of our relations. One of our top priorities for both countries should be to diversify the foundations upon which the bilateral economic relationship is based.

Broader and deeper economic relations between Russia and Japan based on a new collaborative approach would not only benefit both countries but also strengthen peace and stability in the region and globally, helping to expand Russo-Japanese cooperative business to third countries and regions.

The cooperation plan presented by Prime Minister Shinzo Abe and supported by President Vladimir Putin during their last meeting at Sochi in May 2016 can help make a big step in this direction. Proposed spheres of broad cooperation include: (1) extending healthy life expectancies, (2) developing comfortable and clean cities easy to reside and live in, (3) expansion of exchange and cooperation between medium-sized and small companies, (4) energy, (5) promoting industrial diversification and enhancing productivity in Russia, (6) developing industries and export bases in the Far East, (7) cooperation on cutting-edge technologies, and (8) expansion of people-to-people interaction.¹

Identifying these spheres is important, but there is also the much broader vision of mutual complementarity of the two economies. Cooperation in these fields can give birth to remarkable synergistic effects for both sides. Indeed, Russia and Japan can (and should) not be just a buyer or a seller but collaborators and upgrade a “win-win” situation to a “win-win plus alpha”.

To build broader and deeper economic relations between Japan and Russia, both governments should address the above-mentioned priorities in an effort to streamline existing projects, identify new initiatives in each area and provide initial projects with “most favorable” status and support, thereby establishing models of cooperation for the future.

Specifically, Russia and Japan can become major beneficiaries in infrastructure development. Russia, especially the Russian Far East (RFE), has an acute need for electric power infrastructure, oil and gas development, LNG export facilities, transport infrastructure such as ports, airports and railways, and urban environmental infrastructure, including waste disposal facilities. On the other hand, the Japanese government reportedly will increase funds for infrastructure exports over the next five years to $200 billion as part of an action program aiming to expand exports of Japanese high-quality infrastructure. The initiative puts emphasis on Russia, among others.²

The Arctic represents another promising field for bilateral cooperation. It has long attracted international attention for its potential of untapped undersea resources and Arctic shipping routes. Given this interest, the Government of Japan formulated a fundamental plan entitled “Japan’s Arctic Policy,” proclaiming Japan’s intention to take an active part in Arctic affairs.³

³ http://www.kantei.go.jp/jp/singi/kaiyou/dai14/shiryou1_2.pdf
Working with Russia is a great opportunity for Japan to strengthen ties with the most important player in the Arctic and increase its influence within the Arctic Council. It will also give Japan’s energy and shipping companies, as well as research institutions, more access to the Arctic which would help Tokyo diversify its energy suppliers and transportation routes. Japanese ports could gain a competitive advantage over their rivals in the Asia-Pacific. Finally, working with Russian sailors and infrastructure workers experienced with harsh weather conditions will be extremely helpful for Japanese companies. On the other hand, Japanese expertise in energy extraction and maritime operations could be a vital aid to Russian firms. Public and private sectors of both Japan and Russia need to explore and expand cooperative relationships for developing the Arctic shipping routes and conducting resource exploration employing Japan’s strengths in science and technology.

To promote modernization of the RFE economy, the Russian government is encouraging foreign investment into the Vladivostok Free Port and territories of advanced social and economic development. While the Eastern Economic Forum, Ministry for the Far East Development and other agencies are doing much to assist international investors, the Japanese business community still needs detailed information that will help them make the right investment decisions. In its “Fundamental Approach to Japan-Russia Economic Relations,” Japan’s business federation Keidanren emphasized the need for more public and private sector cooperation in order to effectively utilize new special economic zones in the RFE. Specifically this report called for Russia and Japan to establish user-friendly cooperative frameworks and systems for implementing a plan-do-check-act (PDCA) cycle, incorporating feedback from users and investors, and ensuring the visibility of progress. The Ministry for the Development of

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the Far East should serve as an ombudsman for foreign investors as Russia promised at the first Eastern Economic Forum in September 2015. To develop and strengthen their partnership, both Japanese and Russian companies should consider acquisition of each other’s shares, and appropriate governmental bodies of both sides should give full support to such acquisitions.

While Russia shows significant progress in gradual improvement of its domestic business environment as indicated by the World Bank Doing Business ranking, many governmental initiatives have yet to produce visible results. But economic factors, such as GDP growth slump associated with low crude oil prices and a resource-dependent industrial structure, and political factors, including the Western sanctions against Russia, caused a drastic change in the perception of many Japanese companies. In the “Survey on the Russian Business Environment (FY2015)” released by Keidanren in September 2015, the share of Japanese respondents not doing business in Russia but who regard business prospects in Russia as “Very promising” or “Promising” plunged from 43.8% in 2014 to 15.6% in 2015.

In another survey conducted by the Japan External Trade Organization (JETRO) in October-November 2015, “market size and growth potential” ranked highest among the advantages of the investment environment in the Russian market. While lower than in two previous surveys, it was highlighted that the Russian market still had allure and potential for growth. But risks of the investment environment and an “unstable exchange rate” were the most common comments reflecting the effects of the ruble’s depreciation. On the other hand, positive effects were also reported such as decline in the steep rise of labor costs. Signs of improvement were recognized in the fields of monetary systems and regulations. As for concerns of lo-

cal production issues, “rising procurement cost” saw a large increase of 23.7 points reflecting the impact of the fluctuating exchange rate. Regarding issues in the foreign trade system, “complex procedures” and “time required for customs clearance” remained dominant responses. On the other hand, comments indicated big improvements in some areas such as “high import tariffs,” an “unclear inspection system” and “high non-tariff barriers”.

When asked about which parts of Russia they regard as promising, most respondents continue to express interest in European Russia with 90% regarding this region favorably. Interest in the second most popular region, the RFE, had climbed steadily since 2007, but in 2014 dropped for the first time and declined to below 50%. Despite Russian Government initiatives, such as new special economic zones like the Vladivostok Free Port, and the Eastern Economic Forum, it is important to bear in mind that Japanese companies do not necessarily have high expectations. To use the Russian Far East as a gateway to leverage expansion in business between Japan and Russia, the Russian government needs to address the following points as recommended by Keidanren:

1. **Administrative issues**: complicated approval and authorization procedures, lengthy waiting times for approvals and authorizations, discrepancies among different administrative agencies, institutionalized bribery and corruption, etc.

2. **Legal issues**: vague and unclear interpretation and application of laws, frequent legal changes, new laws brought into force without operational regulations, confusion in administrative agencies during transition periods for revised laws, etc.

3. **Issues relating to export and import procedures**: opaque and complicated procedures, arbitrary decisions

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and responses by officials, limited use of letter of credit settlements associated with banks targeted by sanctions, etc.

(4) Issues relating to tax and accounting systems: complicated procedures for refund of VAT and import duties, deviation from International Accounting Standards, complicated procedures for payment of insurance benefits, frequent system changes, etc.

(5) Issues relating to immigration and employment procedures for expatriate staff: lengthy waiting times for visas and work permits, frequent system changes, opaque procedures, etc.

(6) Issues relating to financial policies and systems: continuing high interest rates, unstable exchange rates, complicated settlement procedures with foreign financial institutions because of financial sanctions, etc.

(7) The Russian government’s policy of giving preferential treatment to domestic industries (import substitution policy).

Conclusion

Obviously, there are still political and historical issues remaining to be resolved by Russia and Japan, but efforts to build broader and deeper bilateral economic cooperation will have multiple effects in other areas and lead to a positive future for both of our countries. To enhance the overall capabilities of Japanese and Russian public and private-sector players contributing to bilateral relations, councils and forums operated by relevant ministries of both sides and their agencies need to be integrated into a network with a clear action plan.

The 60-year cycle is in common use in East Asia. The contemporary Russo-Japanese 60-year cycle that began in 1956 is coming to an end. Will the new cycle repeat the previous one as a vicious circle or finally become a virtuous circle?
Introduction

At times of political uncertainty between Russia and Japan, energy cooperation may become a basis for strengthening political and economic ties between the two countries. Economies of Japan and Russia are highly complementary in that Japan is a resource poor country that
is importing practically all its oil, gas and coal while Russia is a close neighbor with a wealth of mineral and energy resources.

Moscow is trying to diversify its energy exports in order to reduce dependence on the European market, and in this context, Northeast Asia looks like the most attractive destination. At the same time, Russia is very keen to increase its share of the Japanese market to balance the rapidly growing deliveries of energy to China. Besides, Russia needs Japan’s financial resources and technological potential to develop oil and gas deposits, especially in new offshore projects in the Arctic and the Russian Far East.

Key Projects in the Russo-Japanese energy cooperation

Hydrocarbons are the main component of Russia’s foreign exports (62% of the total volume in 2015).¹ For more than ten years, Russia has been actively building up its oil and gas export infrastructure to the Asia-Pacific region (APR), especially aimed at Northeast Asian countries. Results of that strategy have already helped to diversify Russian energy exports. In 2015 petroleum shipments from Russia to China, Japan and Republic of Korea reached 65.5 million tons (29.9% of Russia’s oil total exports), while natural gas exports to these three countries amounted to 9.46 million tons (10.8% of Russia’s natural gas total exports).² The Russian government expects that by 2035, 32% of oil exports and 33% of gas exports will go to APR countries.³

At the same time, Russian government analysts predict that hydrocarbon import growth in the Asia-Pacific-

³ http://ac.gov.ru/files/content/1578/11-02-14-energostrategy-2035-pdf.pdf
ic region will be slowing because many countries are diversifying their energy consumption structure by actively developing alternative energy sources. To stay competitive, Russia would have to radically decrease the costs of production, make export policy more flexible, and execute product and geography diversification. In all these aspects, Japan is considered as one of the most promising partners.

Oil

In 2015, Russia delivered to Japan 14.58 million tons of oil (7.7% of the total amount of the Japanese petroleum imports).\(^4\) Russian oil for Japan is mostly pumped from the Sakhalin fields (4.5 mln tons, or 35.1% of the total oil exports from the Sakhalin region),\(^5\) as well as shipped via the port of Kozmino in Primorsky Krai (Territory) (8.7 mln tons that equals 28.7% of the port’s total export volume).\(^6\) Oil is delivered to Kozmino Port by the Eastern Siberia – Pacific Ocean oil pipeline, ESPO). Japanese companies actively participate in the Sakhalin oil and gas projects; Marubeni Corporation holds 30% of the shares in Sakhalin-1, while Mitsui and Mitsubishi, respectively, own 12.5% and 10% of the shares in Sakhalin-2.

Positive prospects for bilateral cooperation are defined by the real possibilities to increase shipments of Russian oil to Japan. For example, the forecast for the oil reserves in Sakhalin-3 project deposits exceeds 700 mln. tons. Additionally, there are sizable oil reserves in eastern Siberia resulting in plans to ship about 35 mln. tons of oil via Kozmino by 2018 (in 2015, 30.4 mln. tons was exported through Kozmino).\(^7\)

\(^5\) http://www.admsakhalin.ru/index.php?id=152
\(^6\) http://smnpk.transneft.ru/press/news?id=30832
\(^7\) http://smnpk.transneft.ru/press/articles?id=20202
Natural gas

In 2015 Russia delivered to Japan 7.32 mln. tons of natural gas\(^8\) (9.2% of Japan’s gas imports). Those shipments came from the LNG plant at Prigorodnoye on Sakhalin Island. The LNG facility was constructed as part of the Sakhalin-2 project with the inputs of capital and technology provided by Mitsui and Mitsubishi. In 2015, 77.4% of the Prigorodnoye LNG was exported to Japan. The use of LNG from Sakhalin allows Japan to drastically decrease transportation costs and delivery time; it takes just three or four days to deliver LNG to Japan from Sakhalin compared to up to four weeks for shipments from the Middle East, and also avoids risks of piracy and maritime transportation bottlenecks.

For many years discussions have been ongoing (mostly initiated by Japanese scholars and experts) about possible construction of an underwater gas pipeline from Sakhalin to Hokkaido and then to Japan’s main island, Honshu. Japan’s interest is explained by the much lower price of pipeline gas in comparison to LNG. According to Japanese experts, the project costs to Russia will be small because the length of the Russian portion of the pipeline would be only 60 kilometers.\(^9\)

However, the underwater gas pipeline project faces serious natural and technical risks since the proposed construction area is characterized by high levels seismic activity, strong underwater currents and frequent storms. We should also take into account major geo-economic risks (Russia as a monopolistic supplier versus Japan as a monopolistic buyer) and political risks (the dispute over southern Kurils).

So far Gazprom has considered a pipeline to Japan as an impractical solution, and instead in 2015 signed a

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\(^8\) FCS. Customs statistics of foreign trade: http://stat.customs.ru/apex/f?p=201:2:882420827838666::NO
\(^9\) http://www.ng.ru/economics/2015-01-13/4_japan.html
memorandum with Shell on the construction of an additional third production line at the Sakhalin-2 LNG plant with a capacity of 5 mln. tons of LNG per year. In order to supply this production line with natural gas, Gazprom plans to extract additional volumes of gas from the Sakhalin-3 deposits. Currently, US sanctions prohibit the deliveries to Russia of the high-technology equipment needed to develop the Sakhalin-3 deposits, thus slowing down this project. As a result, a third LNG production pipeline will not become operational until 2021.\textsuperscript{10}

Gazprom also had plans to construct an LNG plant in Primorsky Krai near Vladivostok, in partnership with Mitsui and Mitsubishi. Eastern Siberia gas deposits were seen as a prospective resource base for the project, but in 2014 Gazprom signed a strategic long-term contract with CNPC to deliver the Eastern Siberian gas to China. According to its terms, Gazprom began construction of the Power of Siberia natural gas pipeline and will use it to supply China with 38 bcm of gas annually for 30 years, beginning from 2019. After this agreement, plans to construct the Vladivostok LNG were postponed indefinitely.

Liberalization of Russia’s LNG export in 2013 encouraged other Russian companies to advance LNG production projects. In 2013, Russia’s largest oil company Rosneft proposed a project to construct an LNG plant on Sakhalin with the possibility of LNG shipments to the Japanese companies Marubeni and SODECO beginning 2019. However, in 2015 this project was postponed for three to five years due to the complicated geopolitical, financial and technological situation.\textsuperscript{11}

In the Far North, the gas company Novatek began construction of the Yamal LNG plant with an annual capacity of 16.5 mln tons. Novatek made offers to several large Japanese companies (Tokyo Gas, Tokyo Electric,

\textsuperscript{10} http://kommersant.ru/doc/2778888
\textsuperscript{11} http://top.rbc.ru/business/07/04/2015/5523cf059a7947e30bc28798
Itochu, Mitsubishi, Mitsui) to buy a share in this project, but they declined. Instead, China’s CNPC bought a 20% stake. Nevertheless, other Japanese companies, such as JGC Corp., Chiyoda and Yokogawa Electric, received large contracts to provide engineering and other services: project planning, deliveries of equipment and spare parts, construction of the facility to prepare and liquefy natural gas, etc. Japan is considered among the key future customers of the Yamal LNG. Shipments to East Asia would travel via the Northern Sea Route, for which purpose the construction of new LNG tankers and icebreakers has already started.¹²

Coal

Russia’s coal exports in 2015 to Japan were 16.18 mln. tons,¹³ amounting to 10.6% of total Russia’s coal exports. Russian coal shipments to foreign customers are expected to increase from the current 142.9 to 170 mln tons per year as a result of the development of coal fields in Eastern Siberia and the Russian Far East. According to the “The Strategy of Seaport Infrastructure Development in Russia until 2030”, adopted by the government in 2012, coal handling in the Russian Far East ports will grow to 84.1-87.8 million tons by 2030.

The Russian Far East’s main coal ports are Vostochny (21.5 million tons, or 24.6% of Russia’s coal exports by seaports), Vanino (13.2 million tons, or 15.1%), Posyet (4.6 million tons, or 5.2%), and Nakhodka (4.4 million tons, or 4.9%). Only Vostochny and Vanino have specialized handling facilities while other ports use the bucket method for coal handling. Low efficiency of the bucket method and inability to handle vessels of deadweight over 40,000 tons.

reduces competitiveness and efficiency of Russia’s coal exports.

The limited capacity of the Baikal-Amur Mainline and the Trans-Siberian Railway is the key problem in the expansion of Russia’s coal shipments. Comprehensive development of the railways that would include the construction of branch lines to new coal ports is a prerequisite to ensure significant growth of Russia’s coal exports.

**Electric power**

An energy bridge to export electric power from Russia to Japan could be a very profitable project. An underwater electricity cable can connect Russia’s mainland with Sakhalin, and then continue to Hokkaido and Honshu. By this energy bridge, Russia would be able to send to Japan up to four gigawatts of electricity per annum. The implementation of this project would require about $6 bln. USD\textsuperscript{14}; Mitsui and JBIC could provide funding and technology. This project would be profitable both for Russia (utilizing surplus electric power produced by hydropower stations in Eastern Siberia) and Japan (access to cheap and environmentally clean energy). The idea has already been discussed for more than 15 years, but its realization is blocked by mostly the same obstacles that preclude the construction of an underwater gas pipeline to Japan.

**Incentives and impediments in bilateral energy cooperation**

Moscow and Tokyo are both very keen to develop productive cooperation in the energy area whose situation is defined by different factors and reasons.

\footnote{http://dvkapital.ru/markets/dfo_16.06.2013_5310_rossija-gotovit-aziatskoe-energeticheskoe-superkoltso.html}
Politics

Russia and Japan are interested in concluding a peace treaty and in further development of good-neighborly relations. Tokyo believes that the deepening of bilateral economic cooperation would make Moscow more forthcoming on the Kuril territorial problem while Russia expects to get Japanese investments and technologies.

Besides, Abe’s administration is nervous about the gradual strengthening of political and economic ties between Russia and China and considers closer relations with Moscow as a means of counterbalancing China’s growing power. This goal is reflected in Japan’s 2016 Diplomatic Bluebook, which states that the development of ties with Russia contributes to Japanese interests and to regional peace and prosperity.\(^{15}\)

To support this thesis, we point to the comprehensive economic cooperation plan that was proposed by Prime Minister Abe during his visit to Russia in May 2016. It consists of eight parts and includes projects to construct LNG plants, airports, seaports, medical facilities and other infrastructural facilities, mostly in the Russian Far East. The economic expediency of some of these projects is not obvious, but most likely these proposals demonstrate that Tokyo is ready to support Russia’s economy in order to achieve its political goal – softening Moscow’s position on the southern Kuril dispute.

Economics and finance

Realization of new energy projects is important for Moscow to earn more money for Russia’s treasury and also to maintain high levels of resource extraction and profitability for oil and gas companies. Besides, energy projects are playing an important role in boosting eco-

\(^{15}\) http://thediplomat.com/2016/06/japans-new-approach-to-russia/
nomic and social infrastructure in Eastern Siberia and the Russian Far East.

For Japan, energy cooperation with Russia helps to diversify its supply sources. Besides, if an underwater gas pipeline and/or electricity transmission projects from Sakhalin is realized, it will help reduce electricity costs on Hokkaido Island whose current electricity costs are significantly higher than in other parts of Japan.

Traditionally, Russia’s oil and gas companies raised financial resources on capital markets in the United States and Europe, but the introduction of sanctions against Russia in 2014 closed access to Western capital, thus limiting opportunities to develop energy infrastructure. Under the circumstances, Russia is eager to increase the role of the Northeast Asian countries as investors into oil and gas projects in Eastern Siberia and the Russian Far East, as well as providers of modern technology.

Until recently, Moscow was not ready to concede majority stakes in oil and gas projects to foreign companies. However, in February 2015 Deputy Prime Minister Arkady Dvorkovich stated at the Krasnoyarsk Economic Forum that he did not see any political obstacles to surrendering shares of up to 50% in Russia’s strategic oil and gas deposits to Chinese companies, except for projects on the continental shelf.16 This statement indicated a significant change in the Kremlin’s traditional approach to national control of oil and gas deposits caused by the negative impact of economic sanctions and plummeting hydrocarbon prices.

Russia views China as the most promising destination for its energy exports and as a major source of financial capital. In 2015, China’s Silk Road Fund bought a 10% stake in Novatec’s Yamal LNG project, while Sinopec bought a stake of approximately 10% in Russia’s

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16 Dvorkovich does not see political obstacles to surrender shares of over 50% in oil and gas deposits to China / RIA Novosti. 02. 27. 2015. http://ria.ru/economy/20150227/1049908556.html
largest oil chemical company, Sibur. However, major Chinese banks are not in a hurry to grant loans to the Russian banks and companies targeted by Western sanctions.

In this situation, Moscow shows a keen interest in Japan’s financial resources. In 2014, Tokyo officially joined Western sanctions against Russia, but introduced them in a milder manner, demonstrating the desire to continue political dialogue and economic cooperation. As a result, at the “Russia-Japan” conference in November 2015, the CEO of Russia’s state-owned oil company Rosneft, Igor Sechin, announced readiness to grant Japanese companies privileged conditions, similar to those offered to China, to enter into very profitable ventures to develop Russia’s strategic oil deposits.\(^\text{17}\)

At the same time, Japan follows a tacit rule not to obtain “unfair” advantages as a result of Western sanctions against Russia, specifically not to provide credits to Russian energy companies in a situation where US competitors had to leave Russian market.\(^\text{18}\) Therefore, it can be expected that activities of Japanese banks and companies in this regard would be limited.

**Energy security**

Japanese energy imports are well balanced in terms of suppliers, not allowing any one country or region to have an excessive segment of the market. The volume of Russian energy exports could be increased by a significant amount and not exceed the ceiling for one supplier in Japan’s energy import structure that, by different evaluations, is in the range between 15% to 20%.\(^\text{19}\) For Moscow, it is also important to diversify its energy exports; first by

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\(^\text{17}\) https://www.rosneft.ru/press/news_about/item/177281/
\(^\text{19}\) Streltsov D. Russo-Japanese trade and economic relations: is there a new foot-hold? World Politics, 2016.
increasing its share of the APR market, and secondly by not allowing its main energy importer, China, to get an excessive market share and dictate its own rules. That is why the long-term aims of Moscow and Tokyo to diversify, respectively, their energy exports and imports are fully compatible.

Technology

Russia’s energy based economy heavily depends on foreign technology and equipment. This is why the imposition of Western sanctions prohibiting transfer of key technology and equipment forced Russian oil and gas companies to freeze or slow down new projects on the continental shelf and in the Arctic.

Now Moscow pins its hopes on the oil service industry in China where leading American and EU companies are producing most part of their equipment. But Chinese companies do not possess cutting-edge technology to develop and extract deep-water and Arctic oil, while only several potential providers, including Japanese, have access to them. Western sanctions led to a sharp decrease in the sales of Japanese high technology equipment to Russia, causing damage not only to Russian but also to Japanese businesses.

Conclusions and recommendations

Energy cooperation could become a key driver in the productive development of Russo-Japanese ties. Russian energy shipments to Japan are growing and new energy cooperation projects are being discussed. However, low prices for hydrocarbons, and especially Western financial and technological sanctions, are making new projects very difficult to implement. Therefore, bilateral poten-

tial for energy cooperation remains unfulfilled. Currently, the most realistic model for bilateral cooperation seems to be participation of Japanese companies in Russian oil and gas companies, including in refining and petrochemicals sectors, through acquisition of minority stakes. In the future, more bilateral energy cooperation is envisioned in such areas as oil, LNG, coal and possibly hydrogen. 21

Among projects in gas cooperation, the Yamal LNG and construction of a third production line at the Sakhalin-2 LNG plant could be most viable. Rosneft’s LNG plant project in Sakhalin and Gazprom’s LNG plant project plan in Primorsky Krai have little chance to be implemented in the near future. The construction of an underwater gas pipeline or an electricity line from Sakhalin to Hokkaido is even less probable. Nevertheless, any of the above-mentioned projects could be reactivated if Russia receives attractive long-term proposals from Japanese investors and technology partners, and especially if Russian and Japanese political leadership demonstrate strong political will to make progress on any of them.

In spite of the recently achieved high level of Russia-Japan contacts, we cannot expect a breakthrough in developing energy cooperation if risks for foreign business in Russia are not decreased. In addition to a number of steps that are already being taken by the Russian government to enhance the investment potential of the Russian Far East, Moscow should increase political and economic predictability of doing business in Russia if it wants to attract significant amounts of Japanese capital. To reduce the risks for foreign capital entering energy projects in the Russian Far East, the most helpful instruments would be financial guarantees issued by the Russian government and major Russian banks. Besides, while conducting an

21 In 2014, RAO ES Vostoka, Rushydro and Kawasaki signed a memorandum to realize a pilot project to produce liquefied hydrogen in Magadan Territory as part of Japan’s long-term policy to tap hydrogen energy. https://rns.online/interviews/Torgpred-Rossii-v-Yaponii-ob-biznese-v-usloviyah-sanktsii-2016-05-31/?track=page_promointerview
energy dialogue with Tokyo, Moscow should take into account the peculiarities of the Japanese business model which involves deep and comprehensive analysis, attention to details, much time for making decisions, and planning horizons of up to 10-15 years or longer.
Everywhere in the world, universities are becoming more and more international or even cosmopolitan. In addition to local students, there are often students from Europe, Asia, Africa and North and South Americas. Friendship and mutual understanding are developed not only between foreign students and local students, but also among foreign students themselves. In some cases, it happens more among foreign students themselves than with local students, because foreign students share the same situation of being foreigners in a host country.

This may be particularly true of Japanese students in Russia. In Russia, Japanese students can easily make friends with Chinese, South Korean, or even North Korean students, in spite of rather difficult relationships between their governments. There are no North Korean students in Japan, but Japanese students can have contacts, and possibly even make friends with North Korean students in Russia. This is of huge importance in view of the
normalization of bilateral relations between North Korea and Japan in not so distant future. Russia can be an attractive place for Japanese students to have truly international experience.

Therefore, it is desirable to increase the number of Russian students in Japan as well as the number of Japanese students in Russia, not only for further development of Russo-Japanese relations, but also for strengthening of Russian and Japanese diplomacy in multilateral relations. This is particularly true in Northeast Asia, the region where intergovernmental relations sometime have serious conflicts. Vladivostok, where the Far Eastern Federal University is established, has direct flights to Beijing, Tokyo, Seoul, Pyongyang and Moscow. Russia offers a unique international learning environment for Japanese students.

In reality, however, there are few Japanese students in Russia. In academic year 2014 (from April 2014 to March 2015), only 509 Japanese university students studied in Russia: 290 as exchange students and 219 students as non-exchange students.\(^1\) Compared to the number of Chinese students studying in Russia (20 thousand in 2014)\(^2\), the number of Japanese exchange students in China (17 thousand in 2013)\(^3\), or the number of Chinese students in Japan (94 thousand in 2014)\(^4\), the number of Japanese students in Russia is surprisingly small. The number of Russian students in Japan is higher, 692 in

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\(^1\) Response from Japan Student Services Organization by email in 13 June 2016. Exchange students are those who are sent to under student exchange agreements between home and host universities.


2014\textsuperscript{5}, even though less than one hundredth of the number of Chinese students in Japan. The scarcity of student exchanges between Russia and Japan will certainly handicap the development of Russo-Japanese relations in the future.

**More trade and investment, more student exchanges**

The apparent reason why there are so few Japanese students is that there is little trade between Russia and Japan. In 2014, Russia’s exports to Japan stood at $19.9 billion USD, while Russia’s imports from Japan amounted to $10.9 billion USD.\textsuperscript{6} China’s export to Japan was $149.4 billion USD and China’s import from Japan $163.0 billion USD in the same year.\textsuperscript{7} Russia’s export to China was $37.5 billion USD and Russia’s import from China $50.9 billion USD in 2014\textsuperscript{8}. However, if the Russo-Japanese trade is small in both directions, it is not small enough to explain such a scarcity of student exchanges between the two nations. Japan’s trade volume, export and import put together, with China is slightly more than ten times as large as its trade volume with Russia. This does not fully explain why there are over 100 times more Chinese students in Japan than Russian students and over 50 times more Japanese students in China than in Russia.

This is also a chicken-and-egg problem. One may also say that there is not much trade because there are not enough people interested in economic cooperation between Russia and Japan. With more Russians studying in Japan and more Japanese studying in Russia, the vol-

\textsuperscript{5} Ibid.
\textsuperscript{6} Statistics by Japan External Trade Organization (JETRO). https://www.jetro.go.jp/world/russia_cis/ru/basic_01.html
\textsuperscript{7} Statistics by Japan External Trade Organization (JETRO). https://www.jetro.go.jp/world/asia/cn/basic_01.html
olume of economic exchanges both in trade and investment should increase in the future. It is necessary to break this vicious cycle of little human intercourse and little economic cooperation. There are two key issues to making a breakthrough: more courses in English and more government support.

**Russian universities should attract more Japanese students by teaching in English**

Below is the list of top ten destinations for Japanese university students studying overseas as exchange students (i.e. under a student exchange agreement between his/her home university and the destination university):

#1 U.S. 12,434 Japanese exchange students  
#2 Australia 5,170 Japanese exchange students  
#3 Canada 4,890 Japanese exchange students  
#4 U.K. 4,262 Japanese exchange students  
#5 South Korea 4,217 Japanese exchange students  
#6 China 3,477 Japanese exchange students  
#7 Thailand 2,013 Japanese exchange students  
#8 Taiwan 1,991 Japanese exchange students  
#9 Germany 1,719 Japanese exchange students  
#10 France 1,681 Japanese exchange students

Because these students went for study abroad for a short period of time, usually one or two semesters, they did not have time to study local languages, only English. This explains why most popular destinations are English-speaking countries. The comparison is interesting with the list of long term-study abroad destinations in 2013\(^9\), where China comes in the second place:

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#1 U.S. 19,334 Japanese long-term students  
#2 China 17,226 Japanese long-term students  
#3 Taiwan 5,798 Japanese long-term students  
#4 U.K. 3,071 Japanese long-term students  
#5 Australia 1,732 Japanese long-term students  
#6 Germany 1,658 Japanese long-term students  
#7 France 1,362 Japanese long-term students  
#8 South Korea 1,154 Japanese long-term students  
#9 Canada 837 Japanese long-term students  
#10 New Zealand 729 Japanese long-term students

One thing noticeable is that South Korea is more popular for Japanese than China for student exchanges but less popular than China for long-term study abroad. This is because there are many courses in English offered at South Korean universities. Since the late 1990s, the South Korean government has strongly pushed for the internationalization of higher education and many universities in the country now offer a great variety of courses in English. For Japanese students who wish to learn about Korea but are not yet fully trained in the Korean language, spending a semester in Seoul or other cities in South Korea can be an attractive option. For the same reason, Thailand appears in the list of top student exchange destinations but not in the list of top long-term destinations. There are many courses in English offered by universities in Thailand, too.

Internationalization *alias* Anglicization of higher education is unavoidable in the age of globalization. Some countries internationalize quickly and some others slowly. Relatively small countries, such as South Korea and Malaysia, internationalize more quickly than larger countries, but every country needs it in order for its higher education to survive in the age of global competition for both foreign and domestic students. If that is what the Far Eastern Federal University and other universities in Russia need, it should be done as soon as possible, to make
Russian universities competitively attractive. That will attract Japanese students as well.

**Government financial support is urgently needed on both sides**

The Anglicization of higher education, however, will not be enough to rectify the lack of student exchange relations between Russia and Japan. If that is of political importance, there should be financial support for Russian students to study in Japan and Japanese students to study in Russia. Attracting Japanese students to Russia, especially to the Russian Far East, is what the Russian government should and can do immediately, with relatively small financial incentives or even simply with visa procedure facilitation. The increase in the number of Japanese students in Russia will make the composition of foreign students in Russian universities, especially in the Russian Far East, more balanced. This will make Russia a more attractive destination also for students of other nationalities.

At the same time, the Japanese government should create incentives for Japanese students to spend time in Russia in order to better educate Japan’s human resource and to improve its position in multilateral politics in Northeast Asia. Russia and Japan share many national interests in Northeast Asia. They are both neighbors of the rising giant, China. It is not for pure altruism but for its own interests, that the Japanese government should strengthen the bilateral relationship with Russia in order to strengthen its position in multilateral relations in Northeast Asia. The same is true for the Russian government.

At the summit meeting on 6 May 2016, President Putin and Prime Minister Abe confirmed their commitment to “increase cultural and people-people interactions” and Prime Minister Abe explained to President Putin that “Russia is a priority in Japan’s strategic review of eas-
The Russian government should work to ease visa requirements for Japanese students, too.

Both Russia and Japan should do what they can do to increase the mutual exchange of young people for a better future of their bilateral relations, for their respective economies and diplomacy and for peace and prosperity in Northeast Asia.

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10 Ministry of Foreign Affairs of Japan, "Japan-Russia Summit meeting," 7 May 2016, http://www.mofa.go.jp/erp/rss/northern/page4e_000427.html; in the same token, Foreign Ministers Kishida and Lavrov had a meeting on 15 April 2016 and the two Foreign Ministers agreed that "cultural, human, and youth exchanges are meaningful from the standpoint of promoting mutual understanding among the peoples of Japan and Russia" and Kishida explained to Lavrov that "Japan is reviewing strategic easing of visa restrictions to stimulate human exchanges to countries including Russia." (http://www.mofa.go.jp/erp/rss/northern/page4e_000417.html)
The current state of Russian-Japanese relations in no way corresponds to their potential, both political and economic. Despite the fact that these two countries have no fundamental ideological conflicts, Russian-Japanese relations are frequently characterized as a Gordian Knot of contradictions and problems, such as the Kuril territo-
rial dispute, the absence of a peace treaty, their belonging to antagonistic security systems, etc.

However, many of these differences, while appearing very prominent in Moscow and Tokyo, are never mentioned in bilateral documents and agreements on practical cooperation concluded between the two countries’ regions. As a federation, Russia grants its constituent units (“federal subjects”) the right to develop ties with foreign states in appropriate areas, while Japan’s prefectures have similar rights. Thus, on the subnational level, Japanese and Russian regions become actors in international relations. This paper analyzes the structure of Russian-Japanese relations and compares key features of federal and regional levels of interaction between Russia and Japan, examining how, using the advantages of contacts at different levels, relations can be further promoted.

In general, the bilateral relations between Russia and Japan are now going through a rather unstable period. On the one hand, cooperation in scientific, technological and humanitarian fields, as well as in the economic dimension, is advancing gradually with the volume of exchange in goods and services constantly growing (excluding the crisis periods of 2008-2009 and 2014-2015). Furthermore, numerous joint projects are progressing in such fields as energy, petrochemicals, car manufacturing, etc. On the other hand, political relations are virtually frozen because there is still no peace treaty between the two countries. Moreover, a treaty is unlikely to be signed in the near future due to the Kuril Islands dispute and economic sanctions imposed on Russia by Japan as a result of the crisis in Ukraine. All in all, these factors have a negative impact on Russo-Japanese relations and prevent the two countries from substantially upgrading the quality of their ties. Moreover, some experts believe that both sides would prefer to maintain this status quo, using the bilateral disputes solely for domestic political gain, for instance during election campaigns.
In addition, a few years ago the Russian government proclaimed the development of the Far Eastern and Siberian regions as one of the top objectives of its internal policy. This includes the establishment of priority development areas, also known as territories of advanced development (TORs), the improvement of business and investment environments, as well as increasing exports from those regions.\footnote{Workplan for Development of the Far East for 2013-2018, http://minvostokrazvitia.ru/activities/plan-of-work.php} The Russian Far Eastern regions were encouraged by the central government to expand their connections with foreign states, especially those of the Asia-Pacific region, in order to generate new flows of goods, services, investments, etc. A new state institution, the Ministry for the Development of the Russian Far East, was established. This Ministry was empowered with additional rights to promote links with Asian countries (mainly China, Japan, and Republic of Korea) especially in practical rather than political issues, such as infrastructure, transport, education and culture.

This internal process of adopting a long term development program for the Far Eastern and Siberian regions can influence relations with foreign states, especially Japan, and these initiatives are particularly important for Russian-Japanese relations for several reasons. First, the main interests of Japanese businesses and investors in Russia are concentrated in the regions of Siberia and the Far East due to their proximity and rich natural resources. Secondly, promoting bilateral relations on the subnational level makes it easier to avoid political controversies which is often impossible on the federal level. Thirdly, it is likely that the decision-making process will take less time if done by local administrations, who have focused and direct contacts, rather than by central governments’ officials who are responsible for developing diplomatic relations globally.
The federal government, represented by the Executive Office of the President, the Federal Assembly (parliament) and federal ministries (primarily the Ministry of Foreign Affairs), is the main coordinator of Russia’s actions in the international arena and is responsible for preparing foreign policy concepts and programs, identifying agendas, as well as conducting legislative activities. In other words, the federal level is vested with broad authorities, including law making, defining the main priorities for Russia in its relations with foreign states or international organizations and serving as a coordinator of Russia’s international actions. At the same time, regional authorities are obliged to follow the rules set by the central government in Moscow. When international interests or initiatives of Russian regions go beyond the existing norms, their authorities need to get approval with Moscow.

The same principle works for the procedure of making international agreements by local authorities. There is a list of standard contracts and treaties on cooperation in various fields. However, if a regional administration considers a standard agreement to be insufficient for achieving its particular interests and objectives, a new version needs to be approved by the federal center.

In addition, being the guarantor of the Constitution and the entire legislation of the country, the federal government is also responsible for securing national sovereignty, including situations where the country has territorial disputes with other states. Federal subjects can interact with foreign entities in the area of security as long as those interactions do not go beyond subnational security issues. This can be clearly seen in the cooperation between regional divisions of law enforcement, defense and border authorities, coast guard services, etc. However, if there is a threat to national sovereignty, the responsibility for any further actions rests with the federal government. A prime example of this principle is a program of visa-free trips for residents of the disputed South Kuril
Islands and Japan. Despite the seemingly subnational and local nature of the program, the unresolved territorial dispute makes it a matter of national importance, and that is why all the documents and licenses for participating in the program are issued by Ministries of Foreign Affairs of the two countries. Moreover, in case of the Kuril Islands dispute and other political problems, federal agencies hold exclusive rights to represent Russia, to participate in negotiations and to develop proposals. Such strict division of authority allows local administrations to concentrate on practical cooperation with foreign partners. This is the reason why regional cooperation almost never sees periods of cooling unless there is a direct recommendation from the central government in some specific areas.

Furthermore, the federal government holds exclusive power to control areas of particular importance, due to their special nature and security issues, which include space cooperation, use of atomic energy or combating international terrorism. Nevertheless, regional representatives engage in much cooperation if they have special qualifications, equipment, research facilities, etc. Local bodies also have relatively broad opportunities to conduct international cooperation; however, they are usually guided by practical needs of their regions. As a result, interactions in such spheres as energy, infrastructure, construction, ecology and humanitarian exchanges are usually conducted more efficiently on the subnational level. Therefore, local bodies can directly attract Japanese expertise to joint projects in sectors where Russia lacks knowledge and experience, such as green technologies, waste processing, smart city infrastructural projects and alternative energy. Additionally, it is possible to establish mechanisms of information exchange on the state of affairs and prospects for cooperation between companies operating in spheres of particular interest for the Russian Far East’s development, such as agriculture, transport, energy, IT, medicine, etc.
Driven by the necessity to promote economic development and to raise exports, regional governments actively use various methods, such as advertising campaigns to popularize their goods, services, intellectual property and other local products. For example, they often support, through funding and advertising, specialized trade shows, fairs and exhibitions. They also participate in setting schedules and attracting guests to those events, including foreign investors. Conversely, the central government rarely uses such instruments, being concentrated purely on so-called soft power efforts to form a better international image of the state to generate economic benefits. Such positive effects have not yet transpired in Russian-Japanese relations, although there are several agreements and programs between the two countries on cultural connections, the biggest of which are the festivals of Russian culture in Japan and Japanese culture in Russia occurring for almost 11 years since 2005. But the large number of cultural events, reaching 400 and involving around 12 million participants on both sides, as well as the network of sister cities, agreements between universities, sports clubs, etc., have failed to neutralize the negative impact of the Kuril territorial dispute, prevent economic sanctions or promote business connections. In order to unlock the potential of the bilateral relations, it is essential to combine cultural events with presentations of the economic and investment opportunities existing in Russia’s regions, paying special attention to the newly established territories of advanced development and the Free port of Vladivostok which provide favorable investment options and simplified custom procedures.

Heads of regional governments participate and take the lead in business missions of their regions abroad on a regular basis. This adds some political heft to these tours and contributes to the broadening of political and business networks between Russia and Japan. At the same time, federal officials have only just made their first steps in this direction. In 2015, a massive business mission to Ja-
pan was led by the president of the all-Russia business association “Delovaya Rossiya” (“Business Russia”), Alexey Repik. In 2016, it was Russia’s Minister of Industry and Trade, Denis Manturov, who led the mission. This is a sign that federal authorities have come to appreciate the advantages of this method and may begin to use it more effectively by appointing ministers, plenipotentiary representatives and other high-ranking federal figures to head business missions as well as broadening their content and scope.

There are several potentially promising areas where subnational cooperation could bring more benefits as compared with capital-to-capital relations. They include:

- bilateral meetings and consultations on developing trade and investment cooperation;
- joint enterprises;
- joint investment programs for the Far East’s development;
- strengthening ties with associations and organizations which assist Japanese businesses in their operations in Russia, such as Japan Fund bureaus, RO-TOBO, JETRO, and Keidanren;
- distribution of information for Japanese companies intending to work in Russia through the above organizations;
- outreach activities, including web pages in Japanese and English on the websites of the Far Eastern regions and other institutions, offering information on the regions’ investment opportunities, foreign companies already operating in those regions and proposals for joint projects;
- establishment of business assistance centers in key regions of Russia and Japan and arrangement of events in those centers such as lectures, seminars, cultural festivals, research workshops, etc.
Bearing in mind the complicated state of political affairs of the inter-governmental level, it is essential to intensify collaborative activities at the subnational level which is less politicized and can provide unique opportunities for effective interaction and maximum benefits for both countries. There are some areas where responsibilities are shared by both federal and regional authorities, such as trade, economic, scientific and technological cooperation as well as links in education, healthcare and sports. Cooperation in all those areas should be intensified. The newly established Ministry for the Development of the Russian Far East, as well as the establishment of priority development areas, demonstrates that Russia’s central government pays special attention to minimizing political costs and barriers by supporting trade and investment cooperation on the level of regional governments.
Chapter 10.
How Japan Can Help Russia Join an Emerging Economic Community of Northeast Asia

One of the defining features of Russia’s strategy under Vladimir Putin has been its increasing geo-economic shift toward the East. Although accentuated and accelerated by the Ukraine crisis, Moscow’s “Asian pivot” had long been in the making and is likely to continue, even if Russia eventually normalizes its currently strained relations with the West.

As Russia turns to the East, the success of this strategy will crucially depend on whether its eastern territories can be transformed from the country’s long-neglected backyard into its Pacific front gate. Revitalizing the Russian Far East (RFE) is impossible to achieve without expanding and deepening links with neighboring countries of Northeast Asia – China, Korea, and Japan. This chapter focuses on how Japan can contribute to Russia’s integration with an emerging economic community of Northeast Asia.
The Russian Far East constitutes both an asset and a liability for Russia. Stretching from east of Lake Baikal to the shores of the Pacific Ocean, this huge expanse of northeastern Eurasia contains many kinds of natural resources—oil and natural gas, coal, iron ore, copper, gold, diamonds, uranium, pristine freshwater, timber, and fish stocks. The RFE boasts 15,000 miles (24,000 km) of Pacific coastline and controls the eastern reaches of the Arctic. The RFE also gives Russia direct access to the Pacific Ocean, making it a truly transcontinental nation spanning the Euro-Atlantic and the Asia-Pacific. At the same time, its location, remote from and with tenuous transportation links to western Russia, as well as its small population, underdevelopment, and the lack of basic infrastructure make the RFE a source of constant concern for Moscow. Since Russia acquired these lands, it has faced the recurring risk of losing control over them as a result of external aggression, foreign encroachment, internal separatism, or combination of all three.

In recent memory, such anxieties were most acutely felt in the 1990s when the Russian state seemed on the brink of collapse and the Far East was all but abandoned by Moscow. The region’s economic links with the rest of Russia were dramatically reduced, and the RFE economy lost almost 60 percent of its value between 1990 and 1999. Autonomist and even separatist tendencies were on full display. Reflecting such sentiment, the ethnic Sakha (Yakutia) Republic pressed for, and gained, a semi-independent status from Moscow. Even in ethnically Russian territories, there was talk of creating a “Far Eastern Republic” while their popularly elected governors often behaved like barons in their fiefdoms.

Vladimir Putin’s accession to power in 2000 marked a change in fortunes for Russia and the RFE. Boosted by high oil prices, the economy grew more than eightfold in the first decade of the new millennium. The central gov-
ernment began to restore control over provinces, including the RFE, as part of its overall political centralization agenda. By the end of Putin’s first term in office in 2004, the RFE no longer seemed in imminent danger of drifting away or being detached from the rest of Russia. Yet Putin’s government set a much more ambitious goal than that of securing the RFE within the confines of the Russian state. Around 2007 Moscow initiated an array of measures and policies designed to significantly accelerate the development of the RFE. This task was proclaimed by the Kremlin “a national priority” and featured large-scale state-funded investments mostly in infrastructure projects. Heightened attention to the RFE was linked with Moscow’s broader strategic goals such as the enhancement and expansion of economic cooperation with East Asia to take full advantage of the rise of Asian economies and diversify away from stagnating Europe. Yet, the results of the strategy to invigorate the RFE and advance economic interaction with Asia have been mixed. The RFE’s economic and social situation has improved, compared to what it was a decade before, but it remains an economic backwater that accounts for only 5-6 percent of Russia’s GDP and about 4 percent of its population.

The herculean task of revitalizing the RFE grew much more difficult after the Kremlin’s attention and resources became distracted because of the Ukraine crisis and confrontation with the West. Add to that the dramatic fall in oil prices, whose previous high levels had helped finance Moscow’s priority projects, including those in the RFE. Even so, there are still reasons for cautious optimism regarding the RFE’s prospects.

Despite having to deal with the deteriorating situation in Russia’s economy and external crises in Ukraine and Syria, the Putin administration still treats the RFE as a priority. This is reflected in special governance and regulatory and fiscal regimes that Moscow has been instituting for the region. In August 2013, Vladimir Putin appointed Yuri Trutnev, who previously served as Minis-
ter for Environment and Natural Resources and later as Putin’s aide, as the man in charge of affairs in the RFE. Concurrent with the position of presidential representative to the Far Eastern Federal District, Trutnev was given the rank of a Deputy Prime Minister, reporting directly to the President and Prime Minister. The RFE became only the second region of Russia, after the North Caucasus, for which a deputy prime ministerial office was established. Trutnev was given expansive powers, becoming a de facto viceroy, overseeing nine provinces as well as the federal Ministry for the Development of the RFE. A Kremlin insider, Trutnev has a reputation for being a tough guy and one of the most efficient officials in the Russian government.

Under Trutnev’s direction, a package of measures have been adopted to improve the RFE’s business climate and attract private investors. In December 2014, the federal law on special economic zones was passed that made it possible to designate areas in the Far East as “territories of advanced development” (sometimes also translated into English as “territories of priority development”), or TORs. Such territories offer investors, both domestic and foreign, streamlined administrative procedures, lower taxes, a privileged customs regime and easier rules for hiring foreign labor. They also get access to infrastructure, such as electricity and transportation, to be built at the government’s expense. So far twelve “territories of advanced development” have been inaugurated, even though investors have yet to start large-scale production on designated sites.

Another landmark event was the designation of Vladivostok, Nakhodka and their environs in the southern Primorsky Territory as a “free port.” The law on the “free port of Vladivostok” was adopted in July 2015 featuring benefits of regulatory liberalization similar to the “territories of advanced development.” Additionally, the “free port” was granted a very significant privilege of visa-on-arrival entry for foreign visitors (they can stay in Rus-
sia for up to eight days). This free travel regime is a revolutionary move for Russia with its traditionally difficult and prohibitive visa regulations. Trutnev is now pushing to extend a free port regime to other ports in the RFE.

The RFE, as part of Russia’s national economy, was not spared the recession the country entered in 2014; however, the RFE’s basic performance indicators look better compared to Russia’s average.¹ In June 2016, the Russian government reported that, for the first time since the early 1990s, the RFE stopped losing population to outward migration, while the RFE’s industrial production index in January-April 2016 grew by 4.5%.²

**China and the Russian Far East**

The RFE and China display obvious economic complementarities, with the RFE possessing abundant reserves of many natural resources that a commodity-hungry China needs. Beijing views the RFE as a proximate overland supplier of vital raw materials.

In the 1990s and 2000s, China’s economic presence in the RFE was mostly represented by the northeastern province of Heilongjiang and limited to primitive trade exchange with little investment and few, if any, big Chinese players operating in the region. Yet, China’s economic footprint in the RFE and Eastern Siberia has grown quantitatively and qualitatively in recent years. Reflecting Beijing’s new-found interest in the RFE, Vice President Li Yuanchao called for linking the RFE with northeast China to create “a single economic integration zone” and “a

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new economic bloc for Asia.” The RFE is highlighted in Beijing’s Silk Road blueprint which claims to strengthen cooperation between China’s Heilongjiang, Jilin and Liaoning provinces and Russia’s Far East.” In a significant departure from previous policies, Moscow lifted informal restrictions on Chinese investments in the RFE and eastern Siberia by actively courting Chinese capital.

Recently, a number of major Russian-Chinese projects, centered in the RFE, were announced. The largest of these deals was the signing, in May 2014, of a $400 billion natural gas deal between Gazprom and CNPC that would supply Northeast China with pipeline gas from fields in the RFE and Eastern Siberia starting from 2019. Other recent Chinese investment proposals in eastern Russia have targeted oil, copper, iron ore, coal mining, gold, forestry, ports, and electric power generation, even though most of them are yet to be confirmed by binding agreements. In 2014, Russia and China also began constructing a railway bridge across the Amur River, the first permanent link between the two countries, which will connect the RFE’s hinterland and Heilongjiang province. Chinese companies have also become the principal investors in a large casino-resort complex near Vladivostok which was opened in November 2015. The complex primarily targets the millions of would-be gamblers in Northeast China.

There has been a surge in Chinese tourism to Russia, including the RFE. In 2015, the border regions of Primorsky Krai and Amur Oblast reported a doubling of the number of Chinese visitors compared to the previous year. The main attraction for Chinese tourists has been the favorable exchange rate due to the ruble’s drastic devaluation against the yuan. More and more Far Eastern hotels, restaurants, and shops roll out the red carpet for Chinese

travelers, customizing services to their tastes. The RFE’s cities, particularly Vladivostok, also hold cultural appeal to the Chinese as the place of European civilization nearest to China.

China’s economic slowdown that we are beginning to witness will not make the RFE less significant for the PRC. Even with slowing economic growth, China will still remain a country of 1.4 billion people and will continue to demand huge volumes of natural resources and energy that must be imported. The incipient change of priorities in China’s economy and society in favor of quality of life, as opposed to sheer GDP growth, will make the RFE even more important to China in some respects. One example, the extreme air pollution in northern areas of China including Beijing, cannot be effectively addressed unless coal, its primary cause, is replaced with cleaner energy. The most realistic alternative is natural gas from the nearby RFE.

Another case in point is China’s growing appetite for imported food. The RFE, with its uncontaminated land and rich fish stocks, can be an important component in China’s food security strategy. Chinese traders have shown increasing interest in importing various foodstuffs from the RFE, especially because they are considered more organic compared to Chinese-produced foods. The devaluation of the ruble makes Russia’s agricultural products even more attractive. Russia’s agribusiness corporations are planning to launch production of pork, soybeans, sugar, and seafood aquaculture in the RFE specifically targeting China’s market. In December 2015, the Russo-Chinese Fund for Agriculture Development was established, which will focus on projects in the RFE, with most of the investments coming from Chinese sources.

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However, expectations of big Chinese investments in Russia, and its eastern regions, have yet to materialize. At the end of 2014, China’s cumulative direct investment in Russia was $3.37 billion. Compare this to Japan’s $14.4 billion and India’s $3.6 billion. China’s officially recorded direct investment in the RFE is in the range of 1-2 percent of the total stock of foreign direct investment (FDI), although this figure does not include “grey area” investments, when, for example, Chinese business people use Russian companies and citizens as fronts to conduct acquisitions and other commercial transactions.

Despite Moscow’s new-found willingness to let the Chinese into the strategic and most prized sectors like oil and gas, relatively few investment deals have been completed, perhaps because of disagreements over price. For example, price differences between Russia’s Metalloinvest and China’s Hopu Investments led to suspension of negotiations on the sale of a stake in the giant Udokan copper field in Zabaikalsk Krai, even though, in May 2014, a preliminary agreement was reached for the Chinese company to buy 10 percent of the shares in Udokan and finance the field’s development. Rosneft’s agreements with CNPC on the sale of stakes in Taas-Yuryakh and Vankor oil fields in Eastern Siberia have also been suspended even though MoUs were signed in 2013 and 2014, respectively. Neither deal was finalized because the parties were not able to agree on price. By contrast, Russia found it easier to deal with India, selling it substantial minority stakes

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in Vankor and Taas-Yuryakh that had previously been meant for China.\(^\text{10}\)

The Chinese are seeking to buy Russian assets on offer as cheaply as possible, biding their time and betting that cash-strapped Moscow will eventually surrender to China’s terms. Besides, there are more and more cases in which the Chinese condition their investments on acquiring an enterprise’s controlling stake, something they have not demanded before.\(^\text{11}\) We are likely to see an increasing number of investment deals, with Russia selling to China minority, and even majority, stakes in its most valuable assets, particularly in Eastern Siberia and the Far East. As one of Russia’s leading China-watchers, Alexander Gabuev, predicts, “after bargaining hard, Moscow will surrender to Chinese demands and open the Russian economy to wider penetration by the PRC,” even though this process is going to be “slow and painful.”\(^\text{12}\)

Looking beyond China: Japan and Korea as Russia’s partners in the Asia-Pacific

Even though Russia and China are close strategic partners, Moscow is uncomfortable with becoming overdependent on China. Besides, China still lacks advanced technologies and expertise, something that Russia needs no less than cash from its foreign partners. This is why Russia shows obvious interest in promoting ties with its two other Northeast Asian neighbors, Japan and South Korea.

The Republic of Korea is important as a potential source of capital and modern technologies for the RFE as well as a major consumer of its primary products. It is

\(^{10}\) Vesti Ekonomika, March 22, 2016, http://www.vestifinance.ru/articles/68879

\(^{11}\) Kommersant, February 6, 2016, http://kommersant.ru/doc/2910600

also significant that, in contrast to Russian-Japanese or Russian-Chinese relationships, there is no negative historical legacy between Russia and Korea. As opposed to China, which is viewed as a potential security challenge by some of the Russian elite, and unlike Japan with which Russia has an unresolved territorial dispute, Korea is not considered a geopolitical concern for the RFE. The ties are assisted by the presence of a fairly large and active community of Russian-speaking ethnic Koreans in the RFE. There are also political motives why Seoul wants a strong presence in the RFE. This is viewed as a way of gaining additional leverage over North Korea, which borders the RFE, to facilitate possible reunification.

A few years ago, an opinion began to grow among Russian policy and expert circles that South Korea was overtaking Japan as Russia’s number two partner in Asia (with China, clearly, as number one). During the Lee Myung-bak administration and in the initial period of Park Geun-hye tenure, Russian-South Korean ties developed quickly, generating high expectations. That optimism, however, has now faded substantially. Even though South Korea did not formally join the US-led anti-Russian sanctions, economic and political ties have been scaled down. Moreover, the tensions around North Korea have indefinitely postponed large-scale geo-economic projects, such as the Trans-Korean pipeline delivering gas from Russia and the Trans-Korean railroad being connected to the Trans-Siberian main line, on which Moscow placed hopes. Apart from ever-changing political and diplomatic circumstances, there are material and objective limitations to South Korea’s contribution to Russia’s Asian pivot. After all, South Korea’s economy is relatively small, just one-third the size of Japan’s and one-tenth that of China’s measured at purchasing power parity. Furthermore, South Korea’s economic growth is slowing down, thus moderating the country’s demand for the RFE’s commodity exports.
Therefore, Japan remains the most viable option if Moscow wants to hedge its bets in Asia. Even with a stagnating GDP, Japan will remain a formidable player well into the future as East Asia’s second biggest and technologically most advanced economy. Some prominent Russian analysts suggest it could become “Russia’s Germany in the East,” a reliable source of technologies and capital. Based on the logic of economic geography, the two neighbors, the Russian Far East and Japan, display almost perfect complementarity. Indeed, ever since the late 1960s, when Tokyo and Moscow struck their first major economic deals, Japan has been by far the biggest foreign investor in the Russian Far East and, in terms of the FDI accumulated in the RFE, is still far ahead of China and South Korea. Geopolitically, Japan is also the country that shows the most alarm concerning the rise of Chinese power, and this alone should make it predisposed to take steps countervailing the growth of China’s influence in the RFE.

But there are factors constraining the development of Russian-Japanese economic collaboration. The dispute over the South Kurils/Northern Territories continues to poison the bilateral relationship and stands in the way of expanding Russian-Japanese collaboration. Furthermore, even though Japan is still interested in the RFE’s natural resources, the stagnant Japanese economy makes Tokyo a less attractive partner than it could have been twenty or thirty years ago. In particular, energy consumption in Japan is flat, which puts basic limitations on the prospects for Russian-Japanese energy cooperation. Politically, Tokyo’s alliance with Washington and its membership in the G7 place restrictions on how far it can advance cooperation with Moscow. But still, Prime Minister Shinzo Abe is eager to improve relations, which is being reciprocated by the Kremlin. He and Putin seem to have established rap-

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port and the two sides continue to negotiate the territorial issue.

Moscow and Tokyo are looking for ways to improve their relations. In the subsequent section, I will focus on one potential dimension of Russo-Japanese interaction that has thus far received little attention, namely, how Tokyo and Moscow could cooperate in the construction of a Northeast Asian regional community.

CJK + R(ussia) + M(ongolia) = “Northeast Asian Economic Community”?

The RFE’s and Russia’s engagement with the Asia-Pacific is hampered by Moscow’s lack of participation in the region’s economic institutions. While Russia has managed to attain full representation in the Asia-Pacific’s leading political-security forums (ASEAN Regional Forum, Six-Party Talks, East Asia Summit, and ASEAN Defense Ministers’ Meeting-Plus), it has very modest presence in Asian economic regionalism.

Asia-Pacific Economic Cooperation forum (APEC) remains the only major economic group in the Asia-Pacific in which Russia has membership. However, it has become obvious that APEC will not be the principal platform for Asia-Pacific trade liberalization and remains at best an OECD-type regional organization for functional cooperation in some specific areas. Instead, two competing integration projects have emerged: the US-led Trans-Pacific Partnership and the China-centered Regional Comprehensive Economic Partnership. Even if invited, Russia would not join either; most of its industries are still too uncompetitive to seriously contemplate entering a region-wide FTA with the leading Asia-Pacific economies.

Until recently, Russia was one of the very few economies in the Asia-Pacific that had no free trade agreements in the region. Russia’s first East Asian trade arrangement was concluded only in May 2015, when the Moscow-led Eurasian Economic Union (EEU) signed a bilateral FTA
with Vietnam. However, with a modest volume of bilateral trade and with many tariff lines exempted from liberalization, the EEU-Vietnam FTA is mostly of symbolic and political value. In addition to Vietnam, there are plans to sign FTAs with other Southeast Asian countries including Singapore, Thailand, Indonesia, Malaysia, and Cambodia. Moscow has also proposed linking together the EEU, the Shanghai Cooperation Organization and ASEAN in a loose economic arrangement, but so far, this sounds more like a vague aspiration than an actionable plan.

Even if Moscow’s expectations of increased ties with Southeast Asian countries materialize, this may not be sufficient to change Russia’s current status as a peripheral player in the East Asian economic system. It is neighboring Northeast Asia, rather than remote Southeast Asia, that accounts for the largest share of Russia’s trade and investment relations in the Asia-Pacific. Therefore, it is essential for Russia to seek ways to increase connections with the Northeast Asian countries.

Russia is a founding member of the Greater Tu-men Initiative (GTI), an intergovernmental body designed to promote economic integration and development of the trans-border area centered on the junction of Russian, Chinese and North Korean borders in the basin of the Tu-men (Tumangan, Tumannaya) River. The GTI was initiated in 1991 with support from the United Nations Development Program. Apart from Russia, the GTI currently includes China, South Korea and Mongolia, with the secretariat based in Beijing. However, the GTI’s ambitions of creating a “second Hong Kong” on the Tumen River largely went unfulfilled and the organization itself is now dormant. One reason for GTI’s failure was the perception

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15 In 2014, Russia’s trade with its Northeast Asian neighbors (China, Japan, South and North Korea, Mongolia) amounted to $148 bln, whereas the trade with ten countries of Southeast Asia stood at $21.5 bln.
among some members (particularly Russia and North Korea) that most of the benefits would go to China and that the entire arrangement would be dominated by China. Specifically, Russia and North Korea worried about possible loss of sovereign control over their territories that were to be covered by the GTI integration scheme. Russia’s concern was also that the GTI could rival, and undercut, the Trans-Siberian Railway and its terminal ports in Vladivostok and Nakhodka. Another limitation is that the GTI remains largely an initiative of provincial administrations, with a low representation from central governments; deputy ministerial conferences are the organization’s highest inter-governmental level. Finally, Japan, the second largest and most advanced economy of Northeast Asia, is not a member of the GTI.

Although some of the GTI’s projects, such as promotion of transport connectivity in the region, may still be useful for Russia and other members, it is clear that the GTI cannot become the institutional foundation for Northeast Asian economic integration. The only other multilateral economic arrangement in Northeast Asia is Trilateral Cooperation of China, Republic of Korea and Japan, also known as CJK. Since its inception in 1999, when the leaders of China, Japan and South Korea held their first joint meeting, CJK has become a well-established and ramified institution. Apart from annual leader summits, it consists of over 50 intergovernmental mechanisms, including approximately 20 ministerial-level sectoral meetings. In 2011, the permanent CJK Secretariat was set up in Seoul. In May 2014, a trilateral investment treaty came into effect. Seoul, Tokyo and Beijing are negotiating a tripartite free trade agreement, pursuing the long-term objective of the establishment of a common market. They are also considering the creation of Northeast Asia Development Bank.¹⁶

CJK, which already stands as Asia’s center of geo-economic gravity, may eventually evolve into an integration bloc commensurate with the EU and NAFTA. According to some analysts, it might even challenge the American global hegemony.\(^1\) But there are serious obstacles on the path to a Northeast Asian community. Chief among them are Sino-Japanese and Korean-Japanese political controversies focused on historical issues. The intensifying geopolitical rivalry between Beijing and Washington is also having an adverse effect on Northeast Asian regionalism. If CJK advances too far, the United States might try to weaken it.

Russia has thus far largely ignored the Northeast Asian cooperation developing on its eastern borders. This may not be a wise policy. Engagement with CJK may well be the most productive course for Russia’s institutional integration with Asia. Many items on the CJK agenda correspond to Russia’s and the RFE’s priorities, such as energy, transportation and logistics, agriculture, and the Arctic.\(^2\) Moscow should pay close attention to CJK and think about possible ways to join the arrangement in some capacity. Full membership may not be realistic in the near future, but Russia could participate as an associate member. Gaining an observer or dialogue partner status would be a good starting point.

CJK members could be open to Russia’s participation. After all, Russia has a strong strategic partnership with China, maintains good relations with South Korea, and shares a mutual desire with Japan to improve relations. However, one of the CJK members needs to take

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\(^2\) Joint Declaration for Peace and Cooperation in Northeast Asia, which was issued at a trilateral summit among South Korea, Japan and China in Seoul in November 2015, called for the launch of "a trilateral high-level dialogue on the Arctic" (November 1, 2015, http://www.mofa.go.jp/a_o/rp/page1e_000058.html)
the initiative to invite Russia to join the fledgling Northeast Asian community. Japan could benefit from making this invitation. Encouraging Russia to join the Northeast Asian regional cooperation would demonstrate that Tokyo is committed to improvement of bilateral relations and is willing to have Russia as an essential player in Asia.

Tokyo should acknowledge the obvious truth that, without Russia, and also probably Mongolia, a Northeast Asian economic community will never be complete. Moreover, with the addition of Russia and Mongolia, the resulting broader membership of a Northeast Asian community would help ameliorate and subsume the well-known political difficulties in China-Japan and Korea-Japan dyads that impede the advancement of institutionalized integration in the region.\(^\text{19}\) For Russia and Mongolia, one side effect of joining the Northeast Asian economic multilateralism will be the reduced risk of excessive dependence on China, since Chinese geo-economic influence would be, to some extent, balanced by Japan and South Korea within the common institutional framework.

The Asian Development Bank (ADB) is another important regional institution in which Russia is absent. This deprives the RFE of a major potential source of financing for infrastructure and other projects. Russia applied to join the ADB, but was denied entry by Japan and the United States, the countries wielding the greatest decision-making power in the bank.\(^\text{20}\) But it may be time for Tokyo to reconsider and welcome Russia into the ADB. If admitted, Russia would gain access to much-needed funds and technical expertise for the RFE’s modernization. Rus-

\(^{19}\) On how the broadening of participation in an integration process can make its progress easier, see, for example, Strike one for trade agreements in Northeast Asia, East Asia Forum, May 30, 2016, http://www.eastasiaforum.org/2016/05/30/strike-one-for-trade-agreements-in-northeast-asia/

sia’s entry would strengthen the ADB which is facing a challenge from the recently created China-led Asian Infrastructure Investment Bank (AIIB). The ADB’s failure to include Russia stands in stark contrast to the AIIB. Not only did China invite Russia to join the new institution, but also allowed it designation as an “Asian” member, thus entitling it to more voting rights than “non-Asian” members. Russia became the AIIB’s third largest shareholder after China and India.

If Japan would assist Russia in joining Asia-Pacific regional institutions, can Moscow reciprocate? Given Russia’s pivotal role in continental Eurasia, Moscow could help Japan to engage with integration projects gathering pace on the world’s largest landmass. In particular, Japan could be invited to join, in some capacity, “a great Eurasian partnership” that was recently proposed by Putin.21

Conclusion

Japan needs to decide if it wants Russia as a full member in Northeast Asian and the wider Asia-Pacific international system. Regardless of Japan’s position, Russia is, and will remain, a player in East Asia. At stake is whether Russia’s “Asian pivot” will increasingly lean toward China or be more balanced and diversified. Encouraging and assisting Russia to join regional institutions would contribute to the construction of a stable and mutually beneficial equilibrium in Asia.

Bilateral relations and the Russian Far East

The *Hayabusa* E10 shinkansen departs Tokyo station on schedule at 09:08 on the morning of Monday 10 June, 2036. Despite the incessant downpour that marks the start of the year’s rainy season, the bullet train accelerates without pause and soon reaches its top speed of over 400 km/h. Gliding smoothly through the Tohoku countryside, the ten green carriages pass within 60 kilometres of the Fukushima Daiichi nuclear power plant, where Russian companies assist with the ongoing decommissioning process.

After brief stops at Sendai, Morioka, and Shin-Aomori, the slanted nose of the dragonlike train enters the Seikan tunnel under the Tsugaru Strait, emerging just 20 minutes later into the refreshing Hokkaidō air. From there, after another stop at Hakodate, the shinkansen arrives at Sapporo in time for lunch. Many Hokkaidō-bound
passengers leave the train at this point. They are replaced, however, by those intending to make the onward journey to Russia. These board wielding small suitcases and clutching neatly-packed *ekiben* lunches. With Sapporo having become a major hub for relations between Japan and the Russian Far East, this portion of the route has become popular with business travellers.

Following this changeover of passengers, the train sets off to the northeast, stopping again at Asahikawa, before heading directly north for Wakkanaï at the furthest tip of Hokkaidō. At Wakkanaï the shinkansen enters the famous Diana tunnel, which stretches beneath the La Pérouse Strait. A major feat of Japanese engineering, the tunnel is more than 60km long, making it the longest in the world. In addition to the train tunnel, this is also the route of the Russia-Japan energy bridge and gas pipeline. The first of these transports electricity from the Russian Far East’s hydroelectric plants to Hokkaidō. The second carries Sakhalin’s offshore gas, not only to Hokkaidō, but onward through Tohoku to consumers in Tokyo.

Those passengers making the trip for the first time chat excitedly as the view through the train windows of the Hokkaïkō countryside is replaced by darkness. The regular business travellers, however, have long ceased to be impressed by the novelty of journeying from Japan to Russia by train. They remain engrossed in their electronic copies of the *Nikkei* or *Vedomosti* and scarcely look up when the train leaves the tunnel on the Russian side. It is only some time later, when the shinkansen begins its approach to Yuzhno-Sakhalinsk, the final stop, that the business passengers take renewed interest in their surroundings. They glance out of the windows in search of familiar landmarks and begin to pack away their belongings.

When the doors open, passengers hurry to avoid queuing at passport control. The process does not take long, however, as it is fully automated and all Japanese visitors can enter Russia for 90 days without a visa. With
these checks complete, the passengers move through to the spacious station concourse. Here, amongst the lively bustle of people, snatches of Russian and Japanese can be heard. Relatives greet family members who have returned from holiday in Japan laden with the latest technology products and bottles of sake. Representatives from the various Russian hydrocarbon, hydrogen, and renewable energy companies are also there to meet Japanese executives and engineers. There is also a large Japanese group that has arrived to join one of the increasingly popular tours. These introduce visitors to sites of natural beauty in Sakhalin as well as to areas of historical importance related to its period under Japanese administration.

Since the opening of the Diana tunnel, a special intimacy has developed in relations between Hokkaido and Sakhalin. And yet, the scene witnessed at Yuzhno-Sakhalinsk station has become increasingly common throughout the Russian Far East. In particular, a similar situation will be encountered by those arriving in Vladivostok.

As recently as 25 years ago, Vladivostok was a rather dilapidated city, suffering from inadequate infrastructure, gloomy economic prospects, and a declining population. Despite its location and name (translated from Russian, Vladivostok means “master of the East”), the city was also poorly integrated with the broader Asia-Pacific region. In stark contrast to this, a visitor to the city in 2036 finds a vibrant, modern city of 800,000 with strong economic and cultural ties to all of its Asian neighbours.

Economically, Vladivostok has become a hub of international trade. Its automated container port, which is a Russian-Japanese joint venture, brings in goods from all over Asia. Some of these are bound for the growing domestic market in the Russian Far East. Other containers are intended for transhipment and are seamlessly transferred to vast freight trains of up to 600 cars in length. These carry the goods to markets in the west, including Europe. Some years ago there were concerns that the trans-Siberian freight route, despite its extensive mod-
ernisation, might be displaced by the Northern Sea Route. The success, however, of large-scale carbon sequestration techniques, which were pioneered by a group of international scientists based at the Siberian Federal University, helped halt the advance of climate change, thus ensuring that the Arctic did not become ice-free.

Vladivostok is not, however, just an entrepôt. It is also a centre of economic output in its own right. This includes a considerable manufacturing sector that has been attracted by the region’s impressive human capital, low taxes, and world-class infrastructure. In particular, the largest of the Japanese car companies has a major presence and has selected Vladivostok as one of the locations for the manufacture of its latest electric, self-driving cars. These are then sold throughout Russia, as well in the rest of the 11-member Eurasian Economic Union (EAEU). The city also features a significant shipbuilding industry and is the base for several companies that export sustainably produced timber from the Russian Far East to consumers throughout the world.

Another local industry worth mentioning is agriculture. Thanks to large-scale infusion of investment and technology from Japan over the last 20 years, many agri-tech companies have emerged in the Russian Far East. Taking advantage of the cheap land and business-friendly conditions, these firms have constructed enormous greenhouse complexes, including some that are larger than 5km². These use state-of-the-art agricultural techniques to control light, moisture, and soil nutrition to produce high-quality fruit and vegetables throughout the year. As well as assisting Russia to move towards self-sufficiency in food production, these companies also export their products throughout Asia.

Lastly, the medical sector in Vladivostok has also become a significant contributor to the local economy. Once seriously lacking in the provision of medical care, the city is now a centre of health excellence. Again, the catalyst for this transformation has been cooperation with
Japan. This began by means of the establishment of a brand new Japanese-run hospital in central Vladivostok. Specialising in oncology, dementia, and anti-ageing medicine, this facility has an international staff of doctors and attracts patients from throughout Russia, as well as from China and the Korean Confederal Republic.

In addition to this economic progress over the last two decades, Vladivostok has become increasingly attractive as a cultural hub. Promoting itself as a unique gateway between Europe and Asia, the city has become popular amongst young people engaged in creative activities. It is also progressively more multicultural and, when strolling down the city’s Admiral Fokin Street, it is common to hear, not only Russian, but also Chinese, Japanese, Korean, Uzbek, and English. Much of this cultural flourishing is due to the success of the Far Eastern Federal University. Since its move to a new campus on Russky Island in 2013, the university has developed into one of the leading academic institutions in the Asia Pacific, attracting both students and academics from throughout the region. Likewise, it is now routine for local Russian students to spend a year studying abroad. In this regard, Japan’s internationally oriented universities in Sapporo and Tokyo have proved particularly popular.

Another significant magnet drawing visitors to the city is Vladivostok’s world famous Mariinsky Theatre’s Primorskii Stage. In particular, the Far East Festival, which is held every summer, has become one of the most prominent events in the region’s cultural calendar. Its popularity is such that, despite the frequency of flights and large number of hotels, it is often difficult to book travel and accommodation around this time. The music and ballet schools that are affiliated with this theatre also attract many young people to the city. As a result, it is common to see international students struggling through the streets with large instrument cases and to meet young ladies, often from China or Japan, whose lithe figures and graceful movements give them away as trainee ballerinas.
How was this achieved?

Reflecting on the past 20 years, it is apparent that enormous progress has been made in Russian-Japanese relations and that this has had a transformative effect on the Russian Far East. How exactly was this achieved? In particular, how did the sides finally break the cycle of false dawns and recurring tensions that had characterised the relationship for so many decades? In retrospect, it seems that both economic and political factors were key.

A major economic breakthrough was the signing of the free trade agreement between Japan and the Eurasian Economic Union in 2019. This was a remarkable step forward, especially as it came only two years after Japan’s unilateral decision to drop sanctions. The agreement had faced opposition from within both countries, as well as from the United States, but it quickly demonstrated its worth by boosting trade turnover between Japan and EAEU members. The deal was also an important milestone in the development of the EAEU itself since, up until that point, some critics had continued to question the organisation’s viability.

The visa-waiver agreement was also of fundamental importance. Its introduction significantly increased people-to-people exchange and many airlines were encouraged to start new flight connections between the Russian Far East and Japan. The greater familiarity between the two countries that this created also led to improvements in Russia’s image within Japan, which had previously been somewhat negative. Although much praised nowadays, this programme was initially contentious. This is because it was not reciprocal. Instead, for the first three years, although Japanese did not require a visa to visit Russia, the same privilege was not extended to Russian citizens travelling to Japan. By temporarily setting aside national pride on this issue, Russia was able to secure major long-term benefits.
Another important factor in helping to attract more Japanese investment was Russia’s bold reform agenda. These reforms, which were promoted by the President’s Economic Council, included ruthless cuts to the size of the Russian bureaucracy. Public spending was also trimmed, including cuts to the military budget but not to education, healthcare, or infrastructure. Further liberal changes saw the elimination of swathes of regulation and a redoubling of efforts to improve the ease of doing business in Russia. The independence and efficiency of the legal system was also considerably strengthened, thereby facilitating the enforcement of contracts. These reforms were accompanied by an unprecedented anti-corruption campaign, which kept the Russian public enthralled for months as a succession of well-known politicians and business owners were unceremoniously arrested and imprisoned.

In retrospect, it is evident that the success of these reforms owed much to the post-2014 economic crisis in Russia. If it had not been for the hardship caused by the West’s economic sanctions and the persistently low oil prices, it is unlikely the government would have felt the urgency to push through this radical agenda. Having done so, however, after an initial period of uncertainty, the Russian business community rediscovered its entrepreneurial spirit and foreign direct investment began to be directed to the country in ever greater volumes. With specific regard to the Russian Far East, economic progress was greatly assisted by the moves that enabled the region to develop policies specifically tailored to its needs. It was in this way that the Vladivostok area was able to fully capitalise on the opportunity provided by becoming a free port in 2015. This was achieved by carefully cultivating ties with Asian neighbours and creating business conditions explicitly designed to suit their needs.

These agreements and reforms were all enormously important. Nonetheless, it was only truly possible to speak about a new era in bilateral relations after the settlement of the territorial dispute. Despite having endured
for more than seven decades, the resolution, when it finally came, was achieved remarkably quickly. All of the historical and legal arguments had already been rehearsed many times before. What had previously been lacking was the political will to agree upon a mutually beneficial compromise. The emergence of this resolve was greatly aided by the preceding increase in economic cooperation. This ensured that each side had a strong incentive to overcome remaining political obstacles.

In the end, the basis for settling the dispute over the Southern Kurils/Northern Territories was the 1956 Joint Declaration. As foreseen by this document, the two sides first signed a treaty of peace and friendship. Having done so, on the same day, the Russian side committed to transfer Shikotan and the Habomai islets to Japan. The transfer of these two islands was then completed within five years and a new international border was established between Kunashir and Shikotan. The Japanese side therefore accepted that Kunashir and Iturup were part of Russia, and the term “the Northern Territories” (hoppō ryōdo) came to be applied exclusively to Shikotan and the Habomai.

Further to agreeing to the transfer of the two smaller islands to Japan, the Yamaguchi Agreement, as the final deal came to be known, included some additional provisions. Most prominently, following the signing of the peace treaty, all four of the previously disputed islands were given special status. According to this provision, all Japanese citizens are free to travel, work, and live for as long as they wish and without any visa restrictions on the Russian islands of Iturup and Kunashir. Likewise, Russian citizens enjoy the same privileges with regard to the Japanese islands of Shikotan and Habomai. Although few Japanese have opted to live permanently on Iturup and Kunashir, this provision has helped ensure a close relationship between these two islands and Japan. In particular, several Japanese businesses have invested in the
islands’ seafood and tourism industries, including in the development of Japanese-style onsen (hot spring) resorts.

One of the thorniest issues with which the Yamaguchi Agreement had to grapple was the status of the 3000 Russian residents of Shikotan. What would be their status after the transfer of the island to Japan? This was settled by Japan’s agreement to grant citizenship to all those of the islanders who wished it. The condition, however, was that they would be required to give up their Russian citizenship. Those who were unwilling to do so were given the status of special permanent residents. They are free to live and work anywhere in Japan without visa restrictions but are required to abide by Japanese law and to pay taxes to the Japanese authorities.

On Shikotan itself, the Russian-speaking residents enjoy considerable autonomy. In particular, Shikotan schools continue teaching predominantly in the Russian language and they have a special curriculum that has been agreed upon by the local community in consultation with the Japanese Ministry of Education. Russian is also recognised as an official language on Shikotan (in addition to Japanese). This means that the Japanese government is legally required to ensure that all official documents issued to the islanders are provided in both Japanese and Russian. Although it was initially thought that these arrangements might prove difficult, many problems were eliminated by the rapid advance of instantaneous interpretation technology.

A final issue addressed in the Yamaguchi Agreement was that of demilitarisation. It was determined that the islands of Kunashir, Shikotan, and the Habomai would be fully and permanently demilitarised. It was also explicitly specified that under no circumstances will any third-party states be permitted to use the islands for any military or intelligence-related activities. This measure was included to alleviate Russian concerns that, after being transferred to Japan, Shikotan and the Habomai might come to be used by the United States military or in-
intelligence services. The only exception to the demilitarisation is Iturup. On this island, which is the furthest from Hokkaidō, Russia is permitted to retain a military presence. The Russian side considered this point non-negotiable as they regarded it essential to maintain capabilities on Iturup to uphold the security of the broader Kuril chain and the strategically important Sea of Okhotsk.

Conclusion

The above is, of course, a highly optimistic vision of the future of Japanese-Russian relations. It is not, however, an inconceivable fantasy and many elements could indeed be implemented over the next 20 years. In order for this to occur, there will need to be major changes in attitudes on both sides. In particular, political leaders will need to be courageous and set aside considerations of short-term popularity. This will not be easy. And yet, if the countries’ decisionmakers concentrate on the enormous future potential of this bilateral relationship, and not on the tensions of the past, perhaps they can find the inspiration to transform Russia-Japan relations by 2036.
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