

### **Russia, Japan, and the Asia-Pacific**

#### **Executive Summary**

- At the beginning of the second decade of the 2000s, Russia-Japan relations remain, in general, in the same shape they were during the later part of the first decade. At some stage, Japan was indicating interest in playing a counter-balancing role in Russia's relations with China, but that has not yet materialized.
- Despite growing economic interaction with Russia, Japan has been lagging behind China and even South Korea in developing economic ties with Russia. However, the current economic and trade volumes provide Russia and Japan a significant potential to develop both bilateral relations and cooperation at a multilateral level in the Asia-Pacific region.
- Energy remains the most promising area for bilateral economic cooperation, from LNG to electricity supplies. Nuclear safety and disaster-monitoring and prevention measures have come to the forefront of bilateral and multilateral cooperation in the wake of the Fukushima disaster.
- Russia sees the APEC 2012 summit in Vladivostok as an opportunity to improve her stance as an important player in the region and as a member of APEC in particular. Among Russia's declared priorities for the summit and beyond are support for further liberalization of trade and investment in the Asia-Pacific, deeper economic integration, joint efforts to encourage "innovative growth" in the region, improvement of transport and logistics systems, and food-supply security. In all of the above-mentioned areas, cooperation with Japan is quite important and has great potential.

- Establishing some form of cooperation with the Northeast Asian “troika” (China, Japan, and South Korea) is a matter of first priority for Russia, as its current economic ties with Pacific Asia are predominantly concentrated on China, Japan, and South Korea. That is why a broad dialogue with Japan is necessary for Russia, as Japan is a key player in various multilateral formats in the Asia-Pacific region.
- The territorial issue remains a factor that can poison the atmosphere of bilateral relations at any time. But the experience of Russia-Japan relations in the past twenty years has shown that, when mutual interests exist, no political problem is an obstacle to economic cooperation.

### **Current State of Bilateral Relations**

In recent years, we have witnessed new developments in domestic political and economic situations in many countries in the region, in bilateral relations between them, in various formats of regional economic and political integration processes. Still, if we take a glance at the current state of Russia-Japan relations, they look almost the same as they did six to seven years ago, even despite some movement ahead.

After the disintegration of the Soviet Union, Russia-Japan bilateral relations initially experienced marked improvement, particularly in the political and cultural fields. The revival of economic ties followed much later.<sup>1</sup> However, any further developments that occurred in recent years cannot be described as impressive, except for the rising volume of bilateral trade. One may argue that Russia-Japan relations had succeeded in reaching a more advanced stage compared to the USSR-Japan relations, especially in spheres other than economic, during the first ten to fifteen years of new Russia’s existence, but since then, those relations have failed to move much higher.

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<sup>1</sup> See V. Amirov. “Japan and Asia-Pacific: A Russian Perspective,” in *Russia, America, and Security in the Asia-Pacific*, ed. by Rouben Azizian and Boris Reznik (Honolulu: Asia-Pacific Center for Security Studies, 2006), 112–123.

The economic issues obviously draw particular attention, keeping in mind the APEC summit scheduled to be held in Vladivostok in September 2012. However, while assessing Russia-Japan relations, it is impossible not to mention the long-standing territorial issue between two countries and its influence over all aspects of their ties.

It would not be an exaggeration to say that, theoretically, Russia and Japan have significant potential to develop both bilateral economic ties as well as cooperation within the Asia-Pacific multilateral institutions of which they are members. Russia would also like to be engaged – hopefully not in a distant future – in economic integration processes that are proceeding between the countries of the Northeast Asian “troika” (China, Japan, and South Korea). There are some other multilateral formats as well, which are of interest to Russia. But whether it is possible for Moscow to realize its desire to participate in those arrangements with Japan’s support anytime soon remains unclear.

For some time in the past, there were hopes on the Russian side that economic interaction with Japan would provide an opportunity for Russia to balance growing ties with China, and to make economic ties with Northeast Asia more diversified. Tokyo, for its part, made some attempts to fuel those hopes, pretending that it could really play a role of counter-balancer vis-à-vis China. So far, those hopes have proven to be unfounded. At some point, especially in the context of the Eastern Siberia - Pacific Ocean (ESPO) oil-pipeline project, Tokyo made statements apparently designed to make an impression that there is a Japanese option which could replace the Chinese market for Russian oil. Yet, after wondering about this option for a couple of years, Japan did not offer any viable alternative in the end. That is why this led to speculation that the only purpose of Japan’s political maneuvering around the ESPO project was to prevent or to hold back its implementation.

However, some experts continue to argue that Japan can play the role of a counter-balancer for Russia’s relations with China: “It

is also worthwhile to note that Japan represents a natural counterweight to mighty and rapidly growing China, a fact which may turn out to be of major importance in the context of future economic rivalry in the world, in general, and in East Asia, in particular.”<sup>2</sup> Usually it is accompanied by suggestions that Russia should make some concessions (meaning territorial) to Japan.

Despite a complicated picture of Russia-Japan relations, one has to acknowledge some positive developments in bilateral ties in recent years and existing opportunities to advance them further.

First of all, let us analyze the bilateral trade that currently serves as a basis for economic ties between the two countries.

After a decline during most of the 1990s, Russia-Japan trade started to recover in 2003 and since then has been on the rise. The upward trend was briefly interrupted by the global financial crisis of 2008-2009, but in 2011 the volume of bilateral trade slightly surpassed the previous record reached in 2008. Japan continues to rank second, following China, among Russia’s trading partners in Pacific Asia.

But Japan is lagging behind China and even South Korea in developing trade with Russia. In 1995, for example, Russia’s trade with China and Japan was almost equal, both in export and import. But, between 1995 and 2011, Russia’s exports to China have increased sixteen times, while, to Japan, only 4.6 times. During the same period, Russia’s imports from China have risen almost 56 times, imports from Japan, 19 times. Russia’s exports to South Korea have gone up almost 18 times, imports from South Korea, 23 times.<sup>3</sup>

In 1995, the official figure for Russia’s overall trade with China was U.S. \$42 billion (not including U.S. \$1 to 3 billion in shuttle trade between the two countries, which was mainly unaccounted

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<sup>2</sup> Andrey Borodaevskiy, “Democracy and Growth: Russia’s Great Challenge,” *The Japan Times* (Jan. 17, 2012) Professor Borodaevskiy, an expert on world economy and international economic relations, was a professor at Seinan Gakuin University, Fukuoka, from 1994 to 2007, and, after retirement, returned to Russia.

<sup>3</sup> Russian Federation Custom Statistics (1995–2011), available at: <http://www.customs.ru/>.

for in official statistics). At the same time, Russia's trade with Japan was U.S. \$3.9 billion (excluding illegal exports of fish and fish products from Russia to Japan, which are estimated between U.S. \$0.7 billion and U.S. \$1 billion), and with South Korea (U.S. \$1.2 billion). In 2011, Russia's respective trade figures were U.S. \$83.5 billion for China, U.S. \$29.7 billion for Japan, and U.S. \$25 billion for South Korea.<sup>4</sup>

One of the reasons for the above-mentioned phenomenon is that the scope of bilateral trade between Russia and Japan is limited to a few items, such as oil and petroleum products, aluminum, energy, and transport machinery (mostly cars).

Another weak point in bilateral economic interaction is that the growing trade volumes are not matched by rising investment flows between the two countries. Unfortunately, Japanese investment in Russia's economy remains at a very low level and Russia's investment in Japan's economy is almost nonexistent.<sup>5</sup> It is difficult to expect that investment flows between the two countries will shoot up in the near- or mid-term future.

If we look beyond trade, it could be surprising to some that compared to Japan, South Korea has succeeded in establishing more comprehensive economic ties with Russia even though Japan, a much larger economy, might seem to have a larger capacity for developing these economic relations. This trend applies to both trade and investment. Investment is of particular importance, taking into account Russia's interest in obtaining foreign technology, though that interest has arisen so far mostly from the Russian government and its plans to modernize the country's economy.

Thus far, compared to Japan, South Korea (both government and business) has shown more eagerness to develop economic ties

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<sup>4</sup> Russian Federation Custom Statistics (1995–2011), available at: <http://www.customs.ru/>.

<sup>5</sup> At the end of 2010, Japanese accumulated direct investment in Russia stood at US\$1.2 billion (0.1 percent of all Japanese outward direct investment). Russia's investment in Japanese economy is even less than statistical discrepancy., JETRO Global Trade and Investment Report (2011), 117, 122.

with Russia, to explore already existing opportunities for it, and to create new ones.

That is why we can conclude that, in Northeast Asia the most important area in the Asia Pacific for Russia both economically and politically, Russia's economic ties with China and South Korea are developing faster than Russia's economic ties with Japan. Despite this obvious fact, Russia maintains an interest in broadening economic interaction with Japan. There is an obvious reason for it, namely, Japan's huge economic, investment, and technological potential.

The territorial issue remains a factor that can worsen the atmosphere of bilateral relations at any time. In 2006, the Russian government approved the federal program for "Socio-economic development of the Kuril Islands for the period of 2007–2015." It was a clear signal that Moscow finally decided to pay attention to the social and economic situation in that remote and, for a long time, neglected region. The program is aimed particularly at developing social and industrial infrastructure on the islands and was designed to significantly improve transport and other communication links between the Kuril Islands and the Russian mainland.

This program irritated Tokyo, as the disputed South Kuril Islands were part of that document. President Dmitri Medvedev visited Kunashir Island in November 2010, despite (or maybe because of) diplomatic protests expressed by the Japanese side and Tokyo's "recommendations" not to do it. After the Russian president's trip to Kunashir, two vice premiers and at least five ministers (including the minister of defense) visited the South Kurils during 2010–2011. Those visits and Tokyo's reaction (both government and non-government) to them added a lot of tension to the bilateral relations.

Closer to the end of 2011, we have witnessed some kind of conciliatory mood on the islands issue on both sides and tension has subsided for the time being. The idea of cooperation between the two countries in the economic development of the Kuril Islands,

which had already been around for quite a long time, was put forward by Moscow again. It remains to be seen whether Japan can decide to move forward on such cooperation without retreating from its long-standing, uncompromising position on the territorial issue.

### **APEC Summit in Vladivostok and Russia-Japan Cooperation**

Russia sees the APEC 2012 summit in Vladivostok as an opportunity to improve her stance as an important player in the region and as a member of APEC in particular. The country is eager to increase its international prestige in the region, particularly as Russia has increased efforts to become a member of the Asia-Pacific community with substantive regional presence. While preparing for the summit, the federal government is making great efforts to invest in the improvement of the infrastructure in the city of Vladivostok and the Russian Far East to make it easier to encourage foreign investment into Pacific Russia's economy. A successful summit is clearly important for Russia as a whole, but it is even more important to maintain the momentum for further socioeconomic development of the Russian Far East, using cooperation in trade, investment, and technology exchanges with neighbors in the region.

Among Russia's declared priorities for the summit and beyond are support for further liberalization of trade and investment in the Asia-Pacific, deeper economic integration, joint efforts to encourage "innovative growth" in the region, improvement of transport and logistics systems, and food-supply security.<sup>6</sup>

In all of the above-mentioned areas, as well in some others of interest to Russia, cooperation with Japan is quite important and has great potential. But, of course, all that potential can be realized only if there is a reciprocal desire on the Japanese side to exploit it.

Russia is working on the formation of "modernization alliances" in high-tech industries with Japan as well as China, India, South

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<sup>6</sup> Interview by Deputy Foreign Minister A. Borodavkin to "Kommersant" newspaper, November 29, 2011, available at: [http://www.mid.ru/brp\\_4.nsf/0/D8E7F804D6E48D1A4425795700280D74-29-11-2011](http://www.mid.ru/brp_4.nsf/0/D8E7F804D6E48D1A4425795700280D74-29-11-2011).

Korea, Singapore, and Australia.<sup>7</sup> All these countries are members of the East Asia Summit (EAS), which Russia joined in 2011 together with the United States. Russia also expressed her intention to take a closer look at the Trans-Pacific Partnership (TPP) project being promoted by the United States. As Japan has recently started consultations with countries that already are in the process of the TPP negotiations, it would be useful for Moscow to exchange views with Tokyo on that matter.

Russia is keen to be a part of some particularly important formats of economic cooperation in Pacific Asia. Of course, it is important to be in APEC to be engaged in the region and also become part of the process of economic liberalization in the region (trade in goods and services, investments flows, and transfers of technology, labor migration, etc.). It is also important to be a member of EAS, which is, so far, a predominantly political organization discussing issues of strategic importance for the region, including economic security. However, establishing some form of cooperation with the Northeast Asian “troika” (China, Japan, and South Korea) is a matter of first priority for Russia, as its current economic ties with Pacific Asia are predominantly concentrated on China, Japan, and South Korea. That is why a broad dialogue with Japan is necessary for Russia, as Japan is a key player in various multilateral formats in the Asia-Pacific region.

### **New Emerging Opportunities**

In December 2011, Russia moved into the final stage of joining the WTO after an eighteen years’ saga of negotiations. Russia’s membership in the WTO will provide an opportunity for the country to be engaged in the FTA development process in the Asia-Pacific, where there are many cross-regional FTA initiatives (bilateral and multilateral). Even before December 2011, Russia

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<sup>7</sup> Ibid.

started to explore a possibility to conclude FTAs with New Zealand, Singapore, and Vietnam. Since conducting preliminary negotiations with New Zealand, Russia has established the Customs Union with Belarus and Kazakhstan. That is why FTA should now be concluded between New Zealand and the Russian-led Customs Union. It seems likely that this FTA will come into being before the end of 2012 or early in 2013. Russia also plans to enter the same kind of negotiations with ASEAN soon.

Taking into account that Japan's importance as Russia's trade and economic partner is growing, we may expect that after Russia finally becomes a member of the WTO, an opportunity will emerge to start negotiations between the two countries to conclude an FTA or Economic Partnership Agreement (EPA). It could include a clause on investment protection, which, if realized, would help improve the levels of protection and liberalization of investment and make it easier for Japanese and Russian companies to do business in the respective countries.

So far, Japan's approach toward an FTA/EPA with Russia has been formulated the following way: "Any comprehensive move to strengthen economic relations, such as through an FTA, would be considered after the strengthening of relations through realization of individual projects."<sup>8</sup>

Energy remains the most promising area of bilateral economic cooperation, from LNG to electricity supplies from Russia to Japan. After the Fukushima nuclear disaster of March 2011, Russia expressed its readiness to provide additional short-term supplies of energy to Japan as emergency assistance. In the long term, Russia would be interested in adding LNG supplies from other sources, such as Eastern Siberia, to the existing LNG supplies from Sakhalin Island.

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<sup>8</sup> From Japan's FTA Strategy (Summary), Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, available at: <http://www.mofa.go.jp/policy/economy/fta/strategy0210.html>.

Japan is currently going through economic restructuring, which is encouraged or caused (or both) by a high yen exchange rate and the consequences of the Fukushima nuclear disaster. That could push Japan toward more economic cooperation with Russia in various fields.

For example, Russia has already been suggesting for some time that it export electricity to Japan, but Japan has shown no interest in importing electricity from Russia. Some experts say the reasons for the reluctance to cooperate with Russia in the electricity area are mostly political, as a possible electricity exporting grid would go through the disputed islands. It remains unclear whether, even after the Fukushima disaster, Japan is ready to embrace the idea of importing electricity from Russia, as China has recently done.

Japan is a promising customer for Russia's energy exports, as Moscow tries to diversify its export markets away from Europe into the Asia-Pacific region. Russia views the establishing of multilateral cooperation in the energy sector as a means to raise its profile in the Asia-Pacific. That is why Russia needs cooperation with as many countries as possible, including China, Japan, South Korea, and others further south.

Both Russia and Japan should have mutual interests in cooperation in energy saving, although for different reasons. Russia is still suffering excessive energy consumption per capita of GDP due to the inefficiency of its economy. In its turn, Japan faces a challenge to balance energy needs and supplies after the Fukushima disaster. Russia can help to replace the inevitable reduction of the nuclear power share in Japan's energy balance with additional energy supplies. For its part, Japan can assist Russia with the transfer of energy-saving equipment and help the Russian economy to become more energy-effective.

The Fukushima disaster has made it absolutely necessary to develop cooperation in enhancing security measures at nuclear plants and to have mechanisms of information exchange in case of emergency. It can also be bolstered with a mechanism of emergency

energy supplies to prevent disruptions in the functioning of industries and social infrastructure.

Russia and Japan have mutual interests in a broad disaster-prevention mechanism, particularly in areas of immediate interest to both, and could also cooperate in such areas as space monitoring. In the wake of the Fukushima disaster, cooperation between the two states may concentrate on the improvement of nuclear-plant safety and joint ventures in third countries, to develop the nuclear-energy industry there.

Apart from energy security, food-supply security is gaining attention, and Russia would be able to offer major opportunities for neighboring countries to invest in agriculture in Pacific Russia to supply domestic markets of Japan, South Korea, and possibly China in the more distant future.

Russia is ready for a comprehensive economic cooperation with Japan, and the bilateral experience of the past twenty years has shown that when there are mutual interests, no political problem can obstruct the natural need for cooperation.