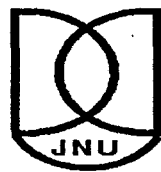


**RUSSIA JAPAN RELATIONS: DISPUTE OVER  
KURILE ISLANDS (1991-2000)**

*Dissertation submitted to Jawaharlal Nehru University  
in partial fulfillment of the requirements  
for the award of the degree of*

**MASTER OF PHILOSOPHY**

**JYOTI KANT BHOI**



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**2006  
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## DECLARATION

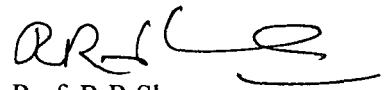
I Declare that the dissertation entitled "RUSSIA JAPAN RELATIONS: DISPUTE OVER KURILE ISLANDS: 1991-2000" submitted by me in partial fulfillment of the requirements for the award of MASTER OF PHILOSOPHY is my own work. The dissertation has not been submitted for any other degree of this or any other university.

  
(Jyoti Kant Bhoi)

## CERTIFICATE

We recommend that this dissertation may please be placed before the examiners for evaluation.

  
Prof. Anuradha M. Chenoy  
(Chairperson)

  
Prof. R.R.Sharma  
(Supervisor)

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*Dedicated*  
*to*  
*My Parents*

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**Jyoti Kant Bhoi**

20<sup>th</sup> July 2006.  
New Delhi.

# **Chapter 1**

## **Introduction**

## **Introduction**

The dispute over Kurile Islands forms one of the major issues that have affected the bilateral relation between Russia and Japan ever since the cold-war era. This is the primary focus of the study. The first chapter, therefore, traces the bilateral relations, between Russia and Japan (1991-2000) focusing on the issue of political rapprochement, with the biggest impediment being the territorial dispute. As the genesis of the dispute dates back to 1945, the first chapter will take into account all the necessary historical facts and events dealing with the origin, nature and gravity of the dispute since the genesis of the dispute till the period 2000. An attempt has been made to briefly narrate the origin of the dispute, keeping in mind that answers to many questions are dealt with. The first chapter focuses on the various historical events, political and diplomatic steps taken by various leaders of both the sides to bridge the gap between the two. It also examines the foreign policy decision making of and between the two countries during the 1990s, through which changes, patterns or tendencies in elements comprising their bilateral relations are considered. For this purpose various bilateral summits, treaties signed and political visits between the two countries have been taken care of. The reasons for not signing the peace treaty by Japan, and Russia's stand of not changing the status quo have been dealt with in this chapter.

The second chapter focuses on the bilateral economic relation between Russia and Japan (1991-2000). This chapter highlights as to how and to what extent their bilateral economic relations have been influenced over these years due to the longstanding dispute over the "Kurile Islands" between them. The third chapter attempts to describe and analyze the bilateral military relation between the Russian Federation and the Republic of Japan during this period. It also attempts to discuss the various military threat perceptions perceived by the then erstwhile Soviet Union, and the present Russian Federation from the Japanese side particularly on its Far eastern region and considers the very basic question as to why has it been so difficult to make peace between the two countries. Of all the major factors that have shaped Russo-Japanese relations, none is more

fundamental and intractable than the issue of Territorial dispute between the two countries. Ever since the erstwhile Soviets occupied the four islands in 1945 and subsequently incorporated them into Soviet territory, this dispute has significantly and consistently affected relations between the two countries. If we follow the main developments since the initial Russo-Japanese contacts and look at their predominant pattern, the whole history of bilateral relations was mostly dominated by tension, mistrust, and confrontation. The hostility between the two countries was so high that Japan regarded Soviet Union to be one of its major enemy states.

On the other hand Russia considered Japan as an aggressive imperial nation, which gave Russia a humiliating defeat in the war of 1904-05. This confrontation over the Kurile Islands had brought erstwhile Soviet Union's relation with Japan to the lowest level since the Second World War. However, after the dissolution of the Soviet Union and the collapse of the Warsaw pact, the era of conflict in Russia-Japan relations seems to be over, and now a new era is in the offing. Both powers are redefining their national interests and engaging in a geo-political repositioning vis-à-vis one another. During 1950's new national independence movements, impacted on the foreign policies not only of Japan and the USSR, but also on those of the states which were at first perceived to be merely observers; the United States emerged as the new capitalist superpower of the post-war era and its objectives included a strategic interest in confronting the expansion of the erstwhile Soviet Union, and interrupt the Soviet-Japanese rapprochement at various levels<sup>1</sup>. Various off-the-record negotiations were carried out both by Russia and Japan during the cold war era, and after the disintegration of the Soviet Union, to solve the issue. However, the dispute remains unresolved till date due to the Japanese policy of no separation of politics and economics and the intervention and involvement of US in the Asia Pacific region.

The dispute over Kurile Islands has to a great extent affected Russian Foreign Policies that has maintained a policy of status quo towards the issue of its "Territorial dispute"

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<sup>1</sup> Jain. R. K., "The USSR & Japan 1945-1980", *Humanities Press*, Atlantic, Highlands 3, N.J, 1981, Radiant Publishers, New Delhi. P-43.



with Japan<sup>2</sup>. Although some Russian political elites and leaders have tried to bridge the gap between the two countries through peaceful negotiations and reforms, but all their efforts in bringing out any political solution to this problem have succumbed to the internal domestic pressure in Russia. Moscow and Tokyo are seeking mutual accommodation and discussing prospects for cooperation, not in the sense of harmony but in the sense of mutual adjustment of policies based on each country's basic interests.

Russia has improved its relations with all industrially advanced democracies, including Japan. There has been a gradual shift in the Russian Foreign Policy, which has moved towards a more pragmatic and economic terms in its approach towards Japan. By improving their relationship Russia and Japan can contribute to the establishment of a post-cold war peaceful world and regional order<sup>3</sup>. Geo-strategic considerations are also essential because any change of borders can affect their security. The solution to the territorial dispute therefore requires an arrangement that will enhance the security perceptions of both the sides. Political relations between countries become firm and stable when they rest on an equally firm and stable foundation of economic relations. This kind of economic relation needs to be created between Russia and Japan.

Viewing Soviet-Japanese rapprochement opportunities from a global perspective, there was always a background possibility for relaxation of confrontation. In each period starting from 1945-1980's, there were different factors, based on regional situations or changes in their international status, which created reasons for Japan and the USSR (Russia) to seek political rapprochement. Specifically, they were: in the 1950s UN membership, the national independence movement in Asia and Africa symbolized by the Bandung spirit; in the 1970s the Sino-Soviet dispute, continuing since the 1960s, "resource nationalism"<sup>4</sup>, and also the advent of Japan as an economic power. Various other issues played an important role in bridging the gap between the two that brought them together if not closer on various occasions. However there were other issues that

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<sup>2</sup> Sherman. Peter, "Russian Foreign Policy since 1990", *Westview Press*, Boulder, San Francisco, Oxford, 1995, p-76.

<sup>3</sup> Zwick. Peter, "Soviet Foreign Relations: Process and Policy" (USA; *Prentice Hall, New Jersey*), p-39.

<sup>4</sup> Hara. Kimie, "Japanese-Soviet / Russian Relations since 1945 a difficult peace". (*Japan: Nissan Institute / Routledge Japanese Studies Series, Routledge Publications*), pp.22-31.

hampered the relation including the Japanese Prisoners of War held captive by the Russian army somewhere in Siberia. Due to its ideological conflict Communist China had parted ways from the erstwhile Soviet Union from its stand on the Kurile Islands. Among other issues the most important issue that had acted, as an obstacle between improved Russia-Japan relations was the US-Japan security treaty signed on September 8, 1951.

The Soviet Primary Goal during the 90's was complete political rapprochement with Japan, specifically the signing of a peace treaty, an issue left over from 1956. Gorbachev and Yelstin during their tenure as the head of the state initiated political rapprochement with Japan. However, Japan's errant attitude had hindered the peace negotiations on many occasions. This had also resulted in the cancellation of visits by various Russian leaders to Japan. The favorable development of Japanese-Soviet economic conflict further motivated the Soviet leaders in their peace overture to Japan. The ideal goal for the Soviets in this move was probably to integrate Japan into its Asian Collective Security Plan<sup>5</sup>. During Gorbachev's tenure there were speculations that Russia would return these islands to the Japanese government due to the various reforms initiated by him including Perestroika and Glasnost. However, Gorbachev was unable to return these islands to Japan due to internal strife in the party.

Later, after the disintegration of the Soviet Union and formation of Russian Federation, Yelstin made it clear to the Japanese that the territories issue won't be discussed again in the future. However, continuing the policy of Gorbachev to improve its relation with all Asia Pacific countries, Yelstin visited Japan to discuss the bilateral issues. After the disintegration of the erstwhile Soviet Union, Russian Federation needed investments and modern infrastructure and Japan by this time had emerged as a major economic power, thus Russia had to improve its relation in order to get economic aid and investments for its underdeveloped regions of Sakhalin and Siberia. The Japanese foreign ministry department called the "Gaimusho" was not keen enough in furthering its economic

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<sup>5</sup> Watanabe. Koji, "Russia and East Asia, The 21<sup>st</sup> century security environment", (*Japan: East West Institute*, 1999), p-43.

cooperation with Russia until the political dispute was resolved<sup>6</sup>. All these steps hindered the peace negotiations. During Yelstin's tenure the Russian's proposed the Japanese an arrangement similar to the Soviet-Indian Treaty of Friendship and Cooperation of 1971, which specified mutual cooperation's.

The Russo-Japanese relationship since 1945 till the 2000's has exhibited a repetitive pattern of deterioration and improvement, never reaching the level of sustained friendly relations. Many opportunities came for both the sides for signing a peace treaty, however, Japan maintained a policy of "no separation of politics and economics"<sup>7</sup>, which hindered the peace process. In this respect Russia and Japan resemble waltz partners dancing in circles around a point, unable to either part the good way or find a way to resolve the problem. The future of the territorial problem seems gloomy since Russia under the leadership of Gorbachev and Yelstin left this dispute at the place from where it had started. But Japan is also responsible for the present situation, as it has maintained an errant attitude since the beginning of the dispute. Gorbachev and Yelstin during their tenure granted many concessions to the Japanese side, like recognition of the four islands as disputed, return of two out of four islands, issue of visas to the Japanese citizens to visit the graveyards of their family members killed during the war in the Kuriles. But all their efforts went futile because the Japanese governments demanded return of entire four islands, followed the policy of no separation of economic and politics, which also included denial of economic assistance to the Russians.

### **Historical background**

According to the indigenous "Ainu" and "Kamchadal" etymology "Kurile"<sup>8</sup> has been derived from the term "Kur" meaning man. In Japan and China, the Kurile archipelago is known as "Chrishima" meaning "Thousand Islands". Beginning only 3.7 km off the tip of Cape Nosappu on Hokkaido, the territories stretch in a northeastern direction. Their

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<sup>6</sup> Takashi. Inoguchi, "Japanese Foreign Policy" (Palgrave Publications, USA, 2000) P-17.

<sup>7</sup> Slavinsky. Boris, "Russia and Japan: From neutrality to war and from war to peace". (Social Sciences, 1995).

<sup>8</sup> Rees. David, "The Soviet seizure of the Kuriles", USA: Praeger Publishers, 1985, p-3.

land area totals 4,996 square kms, with Kunashiri and Etorofu accounting for about 90 percent of this.

Russia's conflict with Japan over the Kurile Islands is centered around four disputed islands, namely: Kunashiri, Etorofu, Shikotan and Habomai. As gateway of the islands between the Pacific Ocean and the Sea of Okhotsk, the disputed territories have long been strategically important to both the nations. Hitokappu Bay on Etorofu, served as the assembly area for the task force of the Imperial Japanese Navy that attacked the Pearl Harbor in 1941. For the Russians, these islands are strategically located so as to allow control of the sea-lanes between the Sea of Okhotsk and the Pacific Ocean<sup>9</sup>. They are vital to the security of the Russia's Far East. However, the degree of their strategic importance has varied with structural changes in the international system, security arrangements and speed of technological development. Geographically, Russia is Japan's closest neighbor and their proximity has generated many confrontations over their boundaries. Russia has historically appeared as a "Northern threat" to Japan, rather than a friendly neighbor.

Neither the Russians nor the Japanese are indigenous to these islands. In the 17<sup>th</sup> and 18<sup>th</sup> century Japanese and Russians began to reach these islands. Long before their advances, the native people called the "Ainu" inhabited these islands. In the year 1855, on the 7<sup>th</sup> Feb a treaty was signed between Russia and Japan called the Treaty of Shimoda of commerce, navigation and delimitation. Under that treaty, the Kurile Islands were formally demarcated for the first time between Russia and Japan<sup>10</sup>. The islands of Kunashiri and Etorofu were awarded to Japan and the rest to the Russians. This treaty set the boundary between Etorofu and Uruppu, and stipulated that the Kurile Islands from the Uruppu northwards belong to Russia. The treaty also stipulated that the large island of Shakhalin, north Hokkaido, would have no national boundary, but would remain open to settlement by both the nations. In 1875, by the freely negotiated Treaty of St.Petersburg,

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<sup>9</sup> Watanabe. Koji, "Russia and East Asia, The 21<sup>st</sup> Century Security Environment", Japan, *East West Institute*, 1999, p-45.

<sup>10</sup> Slavinsky. Boris, "Russia and Japan: From neutrality to war and from war to peace", *Social Sciences*, 1999, pp.22-38.

Japan gained the rest of the Kuriles in exchange for the cession of Japanese interests on Sakhalin. Under this treaty the Meiji government of Japan abandoned all of Sakhalin in exchange for the entire Kurile chain. This was the last time the two countries set their national boundaries by peaceful negotiations. However the whole scenario underwent a drastic change after the Russo-Japanese war of 1904-05. In the war Japan defeated Russia and acquired southern Sakhalin by the Portsmouth Treaty of 1905.

### **Position of the Kurile Islands after the end of 2<sup>nd</sup> World war**

In Jan-Feb 1945 the leaders of the allied powers: Franklin.D.Roosevelt, Winston Churchill, and Joseph Stalin met at Yalta in the Crimea and agreed to transfer the Kurile and return the Southern Sakhalin to the erstwhile Soviet Union, as a condition for Soviet participation in the war against Japan and signed the Yalta agreement. The Yalta agreement in a way was different in nature from other international agreements, in that it was a secret agreement between the erstwhile USSR and the United Kingdom, without the participation of Japan, which was then the legal owner of these territories. Prior to the Yalta conference, a joint US-UK-Chinese Cairo Declaration was released in 1943<sup>11</sup>. It outlined the principle of 'no territorial expansion', stipulating that Japan would be expelled from all territories it had acquired by violence and greed. This principle of no territorial expansion was originally stipulated in the Atlantic Charter, announced in August 1941 by the Anglo-American leaders. Later at the time of surrender, Japan accepted the Post dam declaration which stipulated that the terms of the Cairo declaration shall be carried out and Japanese sovereignty shall be limited to the islands of Honshu, Hokkaido, Kyushu, Shikoku and such other minor islands as determined earlier. Therefore, there remained strong feelings of distrust in the minds of Japan, against the Russians, who were perceived as looters taking away the Kuriles from them. Pursuant to the Yalta agreement, which was signed by Roosevelt, Churchill and Stalin on 11<sup>th</sup> Feb 1945, the Soviet forces occupied the Kuriles, including all four of disputed islands, in late August and early September 1945. The Yalta accord had provided that the Kurile Islands

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<sup>11</sup> Ivanov. V.I., "Japan and Russia in Northeast Asia partners in the 21<sup>st</sup> century", USA: Preager Publishers, 1999, p-33.

shall be handed over to the Soviet Union. The Japanese inhabitants of the Kuriles, numbering about 17,000 either fled away or were later expelled by the Soviets<sup>12</sup>. Following the war, the world was divided into two economic and politico-military blocks with their own spheres of influence and power centers. Ironically, the divisive borders were, in general, defined at Yalta in February 1945. Postwar relations between Moscow and Tokyo were greatly influenced by the San Francisco Peace Treaty, and the US-Japan security treaty signed in 1951. These documents laid out a political, legal and psychological framework for very close relations between Japan and the United States. Stalin, however refused to sign the "San Francisco Peace Treaty"<sup>13</sup>, and as a result there was no peace treaty between Russia and Japan. Among Stalin's reasons for not signing the treaty may have been a belief that the communist victory in China would affect other parts of Asia and a peace treaty with Japan based on Anglo-American conditions represented an obstacle to greater communist success. The territorial issue between Russia and Japan became more complicated because a clause in the San Francisco treaty on sovereignty over southern Sakhalin and the Kuriles was ambiguous; the question over to whom they belong to was left open to interpretations. This in itself has placed the territorial issue at the centre of any peace treaty.

#### **The San Francisco Peace Treaty (1951):**

The San Francisco Peace Treaty was very much a 'product of the era'. Under the US leadership the text of the final draft was released as an American-British draft on 12 July 1951. The conference was, after all nothing but a signing ceremony among the countries chosen and invited by the USA as the host government. Although the Soviets attended the meeting, led by Gromyko, their interests and demands were not heeded. The erstwhile USSR, which could not agree to the treaty, did not sign the treaty.

As for the Northern Territories problem, the following expression was inserted in the San Francisco Peace treaty section (c) of article 2 as follows:

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<sup>12</sup> Robertson.M.L.C, "Soviet policy towards Japan: An analysis of trends in the 1970's and 1980's", London: *Cambridge University Press*, 1988, p-28.

<sup>13</sup> Rees. David, "The Soviet seizure of the Kuriles", USA: *Preager Publishers*, 1985, p-9.

‘ Japan renounces all right and claim to the Kurile Islands, and to that portion of Sakhalin and the islands adjacent to it over which Japan acquired sovereignty as a consequence of the Treaty of Portsmouth of September 5, 1905.’<sup>14</sup>

The article did not specify to which country those territories were renounced. Similarly, sections (b) and (f) of the article stated:

‘b) Japan renounces all right, title and claim to Formosa and the Pescadores.

f) Japan renounces all right, title and claims to the Sparty islands and to the Parcel Islands.’<sup>15</sup>

In addition Chapter VII Article 25 of the San Francisco Peace treaty stated that it shall not confer any rights, titles or benefits on any country which ‘has not signed and ratified’<sup>16</sup> it. The erstwhile USSR did not sign and China was not invited. This means that they did not acquire any right to Kuriles or Southern Sakhalin by virtue of Japanese renunciation of these territories. The treaty did not define the Kuriles that Japan renounced, and this left room for argument later. As a result no peace treaty was concluded between Soviet Union and Japan. Thus it is evident that the territorial dispute, which largely determined the nature of post-war Soviet-Japanese relation, was not in origin a bilateral dispute but created by third parties without consensus between the nations concerned, i.e., USSR and Japan; therefore it seems worth examining the case from more diverse perspectives, beyond the bilateral and/ or trilateral framework.

### **Hatoyama-Khrushchev Talks 1956**

From 12 to 19 October 1956, Prime Minister Ichiro Hatoyama paid a historic visit to Moscow. This was the first official visit by Japanese premier to the Kremlin throughout the history of the bilateral Soviet-Japanese relations. Diplomatic relations between Russia

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<sup>14</sup> Kim. Young, “Japanese Soviet Relations”, *Sage Publications*, Beverly Hills, London, 1974, p-12.

<sup>15</sup> Aron. Leon. & Jensen. Kenneth. M. (eds.), “The emergence of Russian Foreign Policy”, Washington, DC: *United States Institute of Peace Press*, 1994, p-44.

<sup>16</sup> Blank. Stephen, & Rubinstein. Alvin (eds.), “Imperial decline: Russia’s changing role in Asia”, Durham, N.C, *Duke University Press*, 1997, p-26.

and Japan were restored during this visit. The two nations declared the end of state of war between them, and the restoration of diplomatic relations during Hatoyama's visit to Moscow. Each interpreted the territorial question differently though the Joint declaration at the end of the visit was supposedly based upon agreement between the two nations. They agreed to continue negotiations for a peace treaty, but the Soviet attitude was that the territorial problem had become a closed book, and there would therefore be no need to discuss territorial demarcation. Japan however, considered that it reserved the right, in the course of continuing peace negotiation, to reopen the question of the rest of the former Japanese territories occupied by the then Soviet Union. The Japanese territorial claim for the return of the four islands became established as national policy during the 1955-56 negotiations. After prolonged negotiations, the two nations finally reached a compromise through a Joint declaration of 1956 that had given an impression that the erstwhile USSR was going to grant territorial concessions to Japan. The joint declaration stated:

'The USSR agrees to transfer to Japan the Habomais and Shikotan... desiring to meet the wishes of Japan and taking into consideration the interests of the Japanese state'<sup>17</sup>.

Then how about 'the wishes of the USSR' and 'interests of the Soviet state'?<sup>18</sup> Three Questions arise when the territorial expression in the Joint Declaration is considered.

First, what was the reason for returning any territories to Japan?

During the negotiations in August 1955, the erstwhile USSR made an offer to hand over Shikotan and the Habomais to Japan. Khrushchev felt that this concession really meant very little to the Soviet Union. On the other side of the equation, the friendship that the Soviet Union would have achieved with the Japanese people would have colossal

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<sup>17</sup> Bondarnenko. Elene Yu, "Exploitation of Japanese POW labor in the USSR", *Far Eastern Affairs*, No.1 (1993): pp-28-30.

<sup>18</sup> Afonin. Boris. M., *V interessakh druzhby I doborososedstva, Rossiya I ATR, No.1*, (April 1994): pp.76-85.



importance. Khrushchev further pointed that: “the minute we transfer these two small islands, the United States would turn them into military bases. Therefore, Khrushchev told the Japanese, any discussions about transferring the islands to Japan could take place when the Japanese-US military alliance aimed against the Soviet Union was no longer in force”. The primary Soviet goal at that stage was to normalize diplomatic relations with Japan. Khrushchev believed that the islands were deserted<sup>19</sup>; they were used only by fisherman and also by the defense forces of USSR. With the advent of modern weapon system and modern military technology, the islands really have very little value for defense. With missiles that can attack at a distance of a thousand kilometers, the islands have lost the significance they had in the days when shore-based artillery was the main defense.

Second, why did the erstwhile USSR decided to return Shikotan and the Habomai?

The Soviets considered it legitimate that Shikotan and Habomais should be transferred to Japan. Two kinds of arguments were given to justify these. The first reason was, taking into consideration the time at which these islands were occupied i.e. on 2<sup>nd</sup> September 1945; they decided to return these islands as they were occupied illegally, because the occupation occurred after the official surrender of the Japanese armed forces. Khrushchev concluded that although the extent of the Kurile was not specified in any of the relevant international agreements, such as Yalta, San Frasco, Cairo, or Post dam, Shikotan and Habomais were not part of them.

Thirdly, did Khrushchev have any intensions to return the ‘four island’, which Japan has been claiming for several decades?

The third intension on the part of the Khrushchev was to agree for a settlement and to give the two small islands to Japan, but only on the condition that peace treaty is signed and that US troops no longer be stationed in Japan. Otherwise, it would have been a sheer

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<sup>19</sup> Longmire. R. A., “Soviet relation with Southeast Asia: An historical Survey”, *Kegan Paul Institute*, London, New York, 1998, p-48.

folly to relinquish the islands to Japan when the country was essentially under American occupation. The erstwhile USSR also requested the Japanese to promise not to enter into any coalition or military alliances directed against any power, which took part in the war against Japan. However, all these speculations and apprehensions faded away with the American involvement into the matter. On 19<sup>th</sup> August 1956 the Japanese foreign minister Mamoru Shigemitsu, was on the verge of a compromise with the Soviet Union over their offer to transfer the Habomais and Shikotan to Japan, and to conclude a peace treaty. However, the then US Secretary of State John Foster Dulles put last-minute pressure on him, by warning that Japan's residual sovereignty over Okinawa could be endangered if it were to make concessions to the USSR.

During the post-war period, the primary American objective regarding Japan was to prevent Japan from rapprochement with the Soviet bloc. Conclusion of a peace treaty with the Soviet Union would have put on the agenda the question of normalizing relations between Japan and Communist China<sup>20</sup>. Although the peace negotiations started in the Peaceful Coexistence atmosphere of the mid-1950s, this temporary detente was perceived by the US as working strategically to the advantage of the Soviet Union with its peace offensive, and as threatening the west through expansion of the Soviet sphere of interest by perceptions that its initiatives responded to or even stimulated nationalistic and anti-colonial movements in Asia. Events such as the strengthening of Socialist parties and the increased activity of the post-war labour movement, which were manifest during the Soviet-Japanese talks, were viewed with profound apprehension in the USA

Prior to the Soviet-Japanese peace negotiations, the US had indicated that the erstwhile USSR might possibly use the Kuriles as a bargaining chip in order to put pressure on the USA to return the Ryukyus, and that inevitably would increase tension between the USA and Japan. Even the US State department also felt the pressure that if ever the Soviets gave up any significant part of the Kurile Islands, the US would at once experience heavy

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<sup>20</sup> Ray et al, "Asia in Soviet Global Strategy", *Westview Press / Boulder & London-1987*, pp.45-46.

pressure for the return of the Ryukyus and Bonin Islands to Japanese control<sup>21</sup>. Thus it is very clear that the US intended to prevent any Soviet-Japanese rapprochement, no matter which island territories were involved. Their real objective was not to force the Russians to return any given number of islands to Japan, but to create unacceptable conditions in order to keep the Ryukyus and Bonin islands under US control.

Britain's attitude to this dispute was also the same as that of the US. As Chapter II Article 2 of the San Francisco Peace treaty did not specify to which country Japan renounces its former territories, and this applied not only to the Kuriles and South Sakhalin, but also to Formosa and the Sparty islands which were then under the British control<sup>22</sup>. For the fear of disturbing the fragile balance of regional international relations, the UK did not want to revive the San Francisco arrangement. Following which in 1953 Britain pointed that it would not support any attempt to repudiate international agreements governing the status of the Far Eastern islands of the South Sakhalin and the Kuriles. Thus UK not only did not support, but also took a conspicuously negative attitude towards Japanese moves in the territorial negotiations.

### **Tanaka -Breznev Bilateral Talks 1973**

The drastic changes in international relations from the late 1960s' to early 1970s brought a change of attitude in Soviet policy towards Japan. The US-China rapprochement against the background of China-USSR conflict and China joining the UN changed the political landscape of east Asia and motivated the Soviet Union to open more frequent dialogue, and to improve political relations with countries, including Japan, which it had tended to neglect in the past. In addition to its geographical importance, with its advanced economy and technology Japan had developed to such an extent that it had emerged as a major economic power center. Japan's emergence as a major economic power provided grounds for the USSR to improve ties with the same.

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<sup>21</sup> Sherman. Peter, "Russian Foreign Policy since 1990", University of Melbourne, *Westview Press*, Boulder, San Francisco, OXFORD, 1995, PP.22-39.

<sup>22</sup> Vishwanathan. Savitri, "Normalization of Japanese-Soviet Relations", 1945-1970, Tallahassee, FL: *Diplomatic Press*, 1973.

The two sides recognized that to conclude a peace treaty by resolving the yet unresolved problems pending since Second World War could contribute to the establishment of truly good-neighborly relations between the two countries, and conducted negotiations on matters concerning the content of such a peace treaty.

The second chance for Soviet-Japanese rapprochement during the post-war period came in the early 1970, in January 1972; Soviet Foreign Minister Andrei Gromyko visited Japan. In October 1972, the Japanese Foreign Minister Masayoshi Ohira visited Moscow. This meeting marked the First Treaty negotiations to be held after the diplomatic restoration of 1956. In March 1973, the top leaders of the two countries, Kukei Tanaka and Leonid Brezhnev exchanged letters and confirmed the necessity to have a dialogue at the highest level. The event that highlighted their desire for rapprochement was Tanaka's visit to Moscow. During these visits however no peace treaty was signed, and as far the territorial problem was concerned, only a vague expression about yet unresolved problems remaining since Second World War appeared in the Joint Communiqué. Kukei Tanaka's visit to Moscow in 1973, marked the chance to normalize relations between Russia and Japan in the 1970s. Although during these visits no peace treaty was signed, but solution of the problem was left for the future leadership.

Among the major events that had in a way affected the political and economic relation between Soviet Union and Japan the most important event was the concept of "resource nationalism"<sup>23</sup>. This development started in the 1950s. According to this movement all oil producing nations began to preserve their oil resources in order to protect their share at the international market. In 1970s, this "resource nationalism" entered a new stage against the background of internationally anticipated energy crisis. The nationalization of the assets of foreign oil companies by the Qaddafi regime in Libya in Sept 1970 set a precedent for oil producing countries to play the oil card in the international arena. Due to these events all major Asian and European countries began their search for new centers of

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<sup>23</sup> Hara. Kimie, "Japanese-Soviet / Russian Relations since 1945 a difficult peace". (Japan: *Nissan Institute / Routledge Japanese Studies Series*, Routledge Publications), pp-22-31.

oil resources including Soviet Union and Japan. Japan felt that with proven oil reserves in the Soviet Far eastern provinces it would be in the interest of Japan to maintain sound political relation with Soviet Union. On the other hand, the Soviet Union was more cautious in its policy towards Japan. However, both the nations felt the change in the nature of prevailing international situations and entered an agreement over the exploration of Sakhalin oil in the year 1972. The Sakhalin-1 project was launched after Moscow proposed to Tokyo in February 1972 that they jointly explore the offshore oil and gas deposits of Sakhalin islands. In 1975, the Japanese joint stock company SODECO and Ministry of Foreign Trade of the Soviet Union signed an agreement on cooperation of the project. In 1978, the resources of the two fields, Chaivo and Odoptu, were confirmed and work began on development plans. However, the declining prices for oil made the project less attractive, and the two sides resumed their working contacts only in 1991 after SODECO teamed up with Exxon. They each eventually agreed to cover 30 percent of the project costs.

### **Gorbachev's visit to Japan 1991**

Soviet President Mikhail Gorbachev visited Japan from 16 to 19 April 1991, 18 years after Tanaka's visit to Moscow. President Gorbachev became the first leader to visit Japan. This was the third big wave of Soviet-Japanese rapprochement when the Cold War came to an end. Gorbachev's New Thinking policy<sup>24</sup>, provided congenial atmosphere for Moscow-Tokyo talks to begin. These included a series of disarmament proposals courageously made by Gorbachev after his appointment as General Secretary of the Soviet Communist Party, unilateral suspension of nuclear testing from summer 1985, proposal of total abolition of nuclear weapons by the year 2000, and concrete strategic arms reduction talks with the United States, and above all Gorbachev's new Asia-Pacific policy. During his tenure, Gorbachev made an early approach to Japan. In January 1986 Eduard Shevarnadze, the Soviet foreign minister visited Japan. Gorbachev had intensions of improving relations with all its neighbouring countries including Japan. This was

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<sup>24</sup> Dawisha. A. & Dawisha. K., "The making of foreign policy & the New states of Eurasia", *M.E.Sharpe Publications*, Armonk, New York, 1995, pp-18-26.

reflected through the changes made by Gorbachev in his new Asia-Pacific policy. The advance of the soviet New-thinking policy created an atmosphere of détente in Asia. Gorbachev intended to play a broader and more active role in the Asia Pacific region. He ordered the Withdrawal of forces from Mongolia, and Camrah bays in Vietnam. Sino-Soviet relations were brought to normalcy through a series of visits made by diplomats of both the sides. Japan presented itself as the new economic power in the Asia-Pacific region. Overcoming the economic crisis by structural transformation, the Japanese economy experienced further economic growth. In 1985 Japan had outstripped USSR to become the world's second largest economy in terms of GNP. Thus, both in name and substance, Japan had become an important economic player in international politics, and the Soviet attention was directed towards it as Gorbachev began to search for a new economic model. Thus the Soviet approach to the region and to Japan gradually changed its nature from ideologically colored or politically motivated to more pragmatic and economically inspired policy.

The Soviet's comprehensive approach to Japan in the context of regional cooperation was also seen in their attitude towards regional organizations. The Pacific Economic Cooperation Conference (PECC) was established under the leadership of Japan, aimed at promoting regional cooperation through economic, cultural and personal exchanges. The atmosphere in Moscow-Tokyo bilateral relations fluctuated when US-USSR relations at one point appeared opaque with the breaking-off of the Reykjavik Summit in 1986, when Japan announced its intension to join the US strategic Defense Initiative (SDI), and when the Japanese Ministry of Trade and Industry (MITI) toughened its export regulations in 1986<sup>25</sup>. Though, Gorbachev's government proposed an Asian Collective security system, backed up by the success of the CSCE in Europe, Japan rejected it.

However, improved relations with the US facilitated the Soviet Union to improve its relation with Japan. At the Soviet-Japanese annual foreign ministerial meeting held in 1986, Soviet Foreign Minister Shevranadze stated that a peace treaty could be concluded

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<sup>25</sup> Kim. Euikon, "The territorial dispute between Moscow and Tokyo: A historical perspective", *Asian Perspective*, 16(2) (1993): pp.141-151

between the Soviet Union and Japan despite the existence of the US-Japan security treaty. This marked a clear change in the Soviet approach towards Japan on this issue. Using its global status as a leading economic power, Japan reopened the territorial issue at the G-7 summit. At Toronto G-7 meeting in June 1988, Prime Minister Takeshita stressed that it was necessary for his government to give a full explanation of its policy on the 'Northern Territories' problem to the other G-7 leaders, and noted that Moscow has not yet exercised its Perestroika policies in its diplomacy towards Asia. In the Joint statement released at the end of Gorbachev's visit, the following points were notable in comparison with former summit statements: 1) formal acknowledgement of the existence of the territorial problem, 2) the four territories 'the Habomais, Shikotan, Kunashiri and Etorofu'<sup>26</sup> were named for the first time; it was confirmed that the territorial problem would be settled through a peace treaty; though reference to the 1956 Joint Declaration was left vague.

In the past Japan had raised the issue of territorial dispute at various international conferences. Since 1980, the UN General Assembly had become a regular place for Japan to air the 'Northern Territories' problem in its foreign ministerial speeches. For example at Nakasone conference of the 42<sup>nd</sup> UN general Assembly in Aug 1987, and at the UN Arms reduction meeting of June 1988 Japan had raised the issue of territorial dispute with an objective to internationalize the whole issue. However, Japan's attempt to 'internationalize' the territorial dispute entered a new stage with the use of the G-7 summits of the leading industrialist countries. Japan's 'internationalization' approach seemed to be working when the G-7 nations did not initiate large-scale financial assistance to the USSR for its eastern regions. With the end of any further military threat from the USSR, due to the disarmament moves made by the USSR the USA no longer needed to maintain tensions in Soviet-Japanese relations, but remained consistent in its support to the Japanese position on the territorial dispute. The British government announced its official support for the Japanese claim, and declared its intention to urge the USSR to have serious discussions with Japan for its solution.

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<sup>26</sup> Brown. Eugene, "Japanese security policy in the post-cold war world: Threat perceptions and strategic options", *Journal of East Asian Affairs*, 8(2) (1994): pp.327-362

During 1989-90 period economic assistance to the Soviet far eastern region had become a major concern. USSR was expecting foreign investment in this region especially from the Japanese side. However, Japan took a negative attitude towards giving financial assistance to the USSR, since it adhered in principle to its policy of 'no separation of politics and economics' and considered return of all four islands of 'the Northern Territories' to be the 'entry point'<sup>27</sup> a pre-requisite for improving relations. This attitude did not please the Soviet leaders, and accordingly no enthusiasm to advance the summit emerged from the Soviet side either. Japanese reaction was relatively cool and cautious. To Japanese policy maker's, the Soviet Union had been a potential threat to Japan for a long time. Among the Japanese leaders, especially influential conservatives, there was a deep distrust of the Soviet Union. Traditionally, many LDP conservatives also deeply distrusted the USSR and espoused a hard line against it. Gaimusho officials in charge of Soviet affairs always maintained close contact and consultation with the US State Department and National Security Council personnel, especially with their Soviet specialist, in order to avoid confusion or avert negative consequences to the US-Japan relationship.

Some modifications were made in Japan's attitude towards the USSR around 1989. A new expression, 'balanced equilibrium' came into frequent use. The idea was to promote overall improvement in relations encompassing many other fields in a balanced form. The Japanese continued to include the solution of the territorial problem and signing of a peace treaty as the most important items on the agenda. The concept of 'balanced equilibrium' appeared slightly different, in that advances could take place in other fields, but solution of the territorial problem remained a priority. During the summit meetings between Gorbachev and Tanaka in 1991, Gorbachev was reminded that since the transfer of the islands of Habomais and Shikotan was promised in the Japan-Soviet Joint Declaration of 1956, the main dispute of the territorial issue was regarding the

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<sup>27</sup> Cooper. Lee, "Russia and the world new state of play on the international stage", *Macmillan Press Ltd*, 1999, Houndmills, Hampshire, London, 1999, p.133-137.



sovereignty of the two islands of Kunashiri and Etorofu. Japan obstinately urged confirmation of Japanese sovereignty over these islands.

Gorbachev during his tenure experienced strong opposition and criticism from different political groups, especially from Yelstin. Opposition and domestic pressure from the conservatives on Gorbachev and his policies contributed to a shift in the Soviet policy towards Japan. Gorbachev tried to reduce the influence of conservatives from his party who retained hawkish attitude towards Japan. He increased the presence of progressives and especially Japan specialists. In the series of reform initiated by Gorbachev in 1986, the Asia-Pacific authority in the MID section was streamlined to reflect the reality of the importance of the Asia-Pacific region. A Bureau of the Pacific Ocean and Southeast Asian Countries was created to handle a more proactive and positive policy towards Japan. Alexander Panov was appointed head of this bureau. Later that year, recognition of the territorial dispute was implied in the form of the issuing of visas to a Japanese Diet Delegation for the purpose of 'Northern Territories' negotiations. In the 1991 Joint statement, the names of the four-island's were specified for the first time, and the expression 'the problem of territorial demarcation'<sup>28</sup> was also used, which meant the USSR recognized the existence of the territorial problem. But the peace talks concluded with no definite results. As because various proposals and initiatives of the Soviet Union had not been received the kind of wholehearted response from Japan.

### **Boris Yeltins' attitude**

President Boris Yelstin visited Japan in October 1993. Yelstin's Tokyo visit took place in the post-cold war period. However, the relations between Japan and Russia had not entered to the post cold-war stage. This was evidenced by the fact that the peace treaty that was not signed in the San Francisco in 1951 has still not been signed. The territorial problem between Russia and Japan still remained. Russia's attitude towards Japan appeared to be more cautious in nature in various political and economic matters. Any validation or granting of territorial concessions to Japan over the Kuriles, would certainly

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<sup>28</sup> Hakamada. Shigeki, "Building a new Japan-Russia relationship", *Japan Echo*, 24(5), Dec 97), pp.20-25.

open up a 'Pandora's box'<sup>29</sup>. When Yelstin had visited Japan in January 1990, as a Peoples Deputy of the Soviet Union, he had announced his famous 'five stage resolution' proposal. First; Soviet Union would officially acknowledge the existence of the territorial problem; second; the Soviets would establish a Free Economic zone on the four disputed islands, third; they would demilitarize the islands, four; the two countries would then sign a peace treaty, and fifth; after completing these through 15-29 years, the 'next generation' would resolve the question of ownership. After elections as Chairman of the Supreme Soviet of the Russian Republic, Yelstin appeared to retreat from his 'five-stage resolution' proposal. The revised Constitution of the Russian Republic indeed stipulated that its territories or boundaries could not be altered without a national referendum.

Many Soviet leaders were concerned that relinquishing the disputed islands could create a dangerous precedent. Apart from the three Baltic states seized by the Soviet Union in 1940 and reoccupied in 1944, Finland, Germany and Poland, had all been made to cede territory to the Soviet Union between 1940 and 1945, and there was the possibility that ceding territory to Japan, would not only result in risking the political disintegration of the USSR, but also in inviting similar claims from other countries. The President of the Russian federation and Prime Minister of Japan, sharing the recognition that the difficult legacies of the past in the relations between the two countries must be overcome, undertook serious negotiations on the issue of as to whom Etorofu, Kunashiri, Shikotan and Habomai Islands belong. In this regard, the Government of the Russian Federation and the Government of Japan confirmed that the Russian Federation is the State retaining continuing identity with the erstwhile Soviet Union and that all treaties and other international agreements between the erstwhile Soviet Union and Japan would continue to be applicable between the Russian Federation and Japan. Viewed in the context of the end of cold war and détente in Asia-Pacific, the global affairs surrounding Russia and Japan can be explained. This can clearly be applied to the difference in the attitudes of the G-7 countries towards financial assistance to Russia. One Japanese policy agenda item carried over from Gorbachev era was the 'internationalization of the Northern

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<sup>29</sup> Zeigher. E. Charles, "Foreign policy and East Asia Learning and adaptations in the Gorbachev Era", *Cambridge University Press*, 1993, p.86.

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Territories' problem. Although this approach appeared successful and seemed to be working until the Houston Summit (1990) and the London Summit (1991)<sup>30</sup>, Japan was not able to gain stable or reliable international support. Its unwilling attitude towards economic assistance to then Soviet Union and to Russia after it, invited international recrimination and put it in a difficult position. The US and UK, in accord with Japan in taking a cautious attitude at the London Summit of 1991, had changed to support large-scale economic assistance to Russia at the Munich Summit of 1992. Japan, the only non-European Atlantic G-7 member, therefore ended up receiving criticism for being negative towards assistance to Russia, and came to stand on the verge of isolation, though it managed to have some references to the 'Northern Territories' included in the Munich G-7 political statement. At the 1993 G-7 Summit, though held at Tokyo, it was decided not to include the 'Northern Territories' in the Summit agenda.



During the tenure of Gorbachev the Soviet government had started reviewing its policy towards Japan before its collapse, reversed the long-held position that the 'territorial problem has been solved in a series of international negotiations'<sup>31</sup>, and similarly changed its attitude towards the question of treatment of Japanese POWs in Siberia. However, as far as policy towards Russia was concerned, the same kind of attitude was not observed from the Japanese side. Although the political domination of LDP party in Japan, which came to power in 1955 system, ended in 1993, no major political shift was observed in the decision-making towards Russia. Like his predecessor at the time of the Soviet-Japanese Summits, Hosokawa was a popular Prime Minister, but did not have a strong political base. And therefore could not take any initiative in policy making in general. It is often pointed out that the political change of 1993 ended the long period of the LDP one-party dominance, but replaced it with distinct bureaucratic dominance. Since the Gaimusho always took all policy decisions towards Russia, there was actually no change or shift in their policies. As far as Foreign Policy was concerned Hosokawa,

<sup>30</sup> Stephen. J. John, "The Kurile Islands: Russia Japan frontier in Pacific", *Oxford University Press*, London, 1974, p.24.

<sup>31</sup> Turay. M. Abdul & Mason. David. T, "US-Japan Trade Frictions its Impact on Security Cooperation in the Pacific Basin", *McMillan Publications*, 1998, pp.185-189.

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in fact had no intention of attempting radical changes<sup>32</sup>. There were strong voices in the business community advocating improvement and stabilization of the Russo-Japanese political relations:

The Japanese territorial claim was for 'four islands' return, the government's basic policy principles were 'non-separation of political and economics'. After Gorbachev's visit, the Japanese attitude towards the Soviet Union appeared to be softening. Since the failure of the coup attempt, the focus of Japanese policy towards the USSR and Russia seemed to be shifting towards cooperation in assisting democratization and conversion to a market economy. In the light of a series of progressive proposals or ideas regarding the territories question, the Japanese government appeared to view the problem in the broader context of building a constructive relationship with Russia. To this end, Japan initiated programmes of humanitarian assistance through both public and private channels. In the Tokyo declaration, the expression of the territorial problem indirectly confirms the validation of the 1956 Joint Declaration, which was not the case at the previous summit with Gorbachev. The declaration contains the clause 'all treaties and other international agreements between Japan and the Soviet Union continue to be applied between Japan and Russian Federation. At the Press conference held after signing the Declaration Yelstin acknowledged that the international agreements included the 1956 Joint Declaration, which specified the transfer of Shikotan and the Habomais.

There were speculations that Japan might shift from its errant attitude, which it had observed in the past and be more flexible during the Japanese Foreign Minister Watanabe's visit to Moscow in 1993. He gave sufficient indications of policy shift of the Japanese Government. However, this policy shift was not a shift at all in the real sense as Japan was not flexible over the territorial issue. Japan was not ready to compromise on anything less than the complete return of all the four islands. It was this rigid adherence to the 'four islands return' policy that caused Yelstin to cancel his visit to Japan. For Yelstin, the territorial problem with Japan had been an important diplomatic agenda item

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<sup>32</sup> Hanami. Andrew, "Japan and the military balance of power in Northeast Asia", *Journal of East Asian Affairs*, 8(2) (1994): pp.364-395.

and also an important political tool<sup>33</sup>. However, his attitude towards it had not been necessarily consistent. In response to the domestic political situation, Yelstin had shifted his position several times. During Gorbachev's regime, especially after his feud with him, he used it as a political tool to attack Gorbachev's government. Yelstin had announced a five-stage plan for a solution during his visit to Japan in 1990, but then retreated and started to sound more nationalistic after coming to power. At the time of Gorbachev's visit to Japan, Yelstin warned Gorbachev not to make any territorial concession. Once Yelstin had succeeded Gorbachev and taken power as national leader, he was then vulnerable to use of the same issue by his opponents as a political tool to shake his political base, just as he had used it against Gorbachev.

At the Russo-Japanese Foreign Ministerial talks in New York on September 5 1993, final discussions were held over whether or not to refer to the 1956 Joint Declaration in the statement to be released at the time of the President's visit. It was the Japanese side, which decided to omit references to it. In addition, the Japanese *seikei fukabun* (no separation of economic and politics) policy, which was not favored by the Russians, collapsed after the cancellation of the visit. This became clear with the large-scale economic assistance Japan agreed to provide in the G-7 arena. In retrospect it was Japan that made the territorial problem a global issue at the G-7 summit, and this G-7 card ironically came back to Japan in the form of foreign pressure that it should not make the bilateral issue of the return of the islands a condition for assisting Russian stability; which was of global concern. The goals of the both the countries remained unchanged, namely political rapprochement by peace treaty. The other priority goals they sought from their counterpart were: for Russia, development in economic relations, especially financial assistance and economic cooperation from Japan; and for Japan, development in political negotiations, especially achieving the long-term goal of the 'Northern Territories'. However, just as Gorbachev, was not able to realize these goals so easily, Yelstin's visit itself became more like the objective<sup>34</sup>. Continuity was clearly seen in the repetition of

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<sup>33</sup> Okuyama. Yukata, "Dispute over the Kurile islands between Russia and Japan in the 1990's". ( *Pacific Affairs*, 2003), pp.11-13.

<sup>34</sup> Kuchins. Andrew (eds.), "Russia and Japan: An unresolved dilemma between distant neighbours", University of California, *International and Area Studies*, 1993, pp-161-186.

the basic interaction pattern between the two nations: various issues were repeated like the Japanese mixed approach of Kaudai Kinko (balanced equilibrium) and Seikei Fukabun (no separation of economic and politics) with the territorial goal of the four islands return; and the Russian position of not changing the basic territorial claim but showing 'flexibility' in other respects. Bilateral relations between Russia and Japan entered a new era when Yelstin and Hashimoto met at the G-8 Summit (Russia having now officially joined the G-7) in Denver in June 1997. Yelstin and Hashimoto agreed to open a hot line and to hold annual meetings. A wide-ranging economic cooperation programme, the Yelstin-Hashimoto Plan' was announced. Hashimoto announced a 'new diplomatic policy guidelines towards Russia', enunciated a set of principles of 'mutual trust', 'mutual interest', and 'long-term perspective', and also declared his intension to reach at a solution till the end of 2000. Both leaders displayed a clear inclination towards rapprochement. Japan pledged to back Russia's inclusion as an APEC member. And Russia expressed its support for Japan's claim for a permanent seat in the UN Security Council. The most remarkable outcome of the meeting, was that both leaders agreed to make the utmost effort to conclude a peace treaty by 2000 based on the 1993 Tokyo Declaration. On 13 December 1997 the Gaimusho further displayed its seriousness by announcing the opening of a local office in Yuzhnosakhlinsk from 1 January 1998. This virtually constitutes Japanese recognition of Russia's sovereignty over Southern Sakhalin, also seized by the USSR in 1945, reversing a long-standing position that sovereignty over it is undecided in terms of international law. The outcomes of the 1993 Tokyo declaration, the Summit meeting between Yelstin and Hashimoto, were distinct from the 1991 Joint statements<sup>35</sup> made between Gorbachev and Tanaka. As during these meetings Yelstin gave a verbal confirmation of the 1956 Declaration, which Gorbachev was not able to give on the territorial issue. This development marked as a change in the political attitude of Russia towards Japan over the issue of territorial dispute. However, both Russia and Japan had always refrained from expressing any pragmatic and viable solution to the problem of territorial issue. As a result of which the issue of northern territories remains unresolved.

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<sup>35</sup> Lo. Bobo, "Russian Foreign Policy in Post-Soviet Era, Reality, Illusion and Mythmaking", *Palgrave Macmillan Publications*, 2002, pp.29-61.

## **Chapter 2**

# **Russia-Japan Economic Relation**

## **Russia-Japan Economic Relation**

This chapter provides an analysis of progress, opportunities, and barriers in the bilateral economic relations between Russia and Japan. It examines the potential ingredients needed for sustained economic growth in Russia. In order to achieve economic growth would require the creation of a functional capital market, encouragement for structural changes, nurturing entrepreneur skills and stimulating trade expansion in the field of manufacturing products, while imposing some capital controls on short-term inflows. Adequate foreign direct investment policies are also crucial which must include political stability and radical tax reform. This chapter further examines the progress of the Russian far-eastern regions, and new political relations between Moscow-Tokyo that support Russia-Japan economic cooperation and their political engagement in Northeast Asia. It also examines problems and future prospects for Japanese investment in the energy resource development projects in Russian Far-east. An improvement in the bilateral relations is important for the future of Northeast Asia and the Asia-Pacific region. Bilateral cooperation between Russia and Japan not only in the energy sector, but also in the transportation sector including the modernization of the Trans-Siberian Railway, will facilitate the flow of goods between Europe and the Asia-Pacific region, creating new jobs and opportunities for the businesses in Russia, Japan, and Northeast Asia. Indeed, Russia-Japan bilateral economic initiatives need to be seen in a broader regional and global economic context.

Eastern Russia serve as a testing ground for Russia-Japan business cooperation in areas such as oil and gas, and timber resources development. Japanese officials have more than once proposed that at least half of the official credits and loans granted to Russia should be utilized in the Far Eastern Region. However, this proposal has yet to be considered and practically implemented by the Russian government, which needs to use its open credit lines to the maximum extent possible. Considerable attention in Japan was given to the Federal Program on Economic and Social Development of the Russia's Far-eastern and Trans-Baikal Regions. The draft of this Federal program was, in fact,



for the first time publicly presented in Tokyo in March 1996, before the Russian government officially launched the program. The Japanese government also made a number of useful proposals related to the Federal program and urged the Russian side to incorporate the development of Zarubino Port into the Federal program. Japan also maintains close and active relations with Russia through the subcommittee on the Far East named as the Russia-Japan committee for Economic Cooperation, which was set up in 1996.

Moreover, within the Russia-Japan Inter-Governmental Commission on Trade and Economic Cooperation a separate sub-commission was set up in 1996<sup>1</sup> to discuss economic cooperation between Japan and the Far eastern region of Russia. Regular meetings among the governors of the Russian Far eastern province and their Japanese counterparts have also taken Place. These meetings in this subregion were issue specific, accommodating different demands and interests and allowing different group of actors to participate in the process. A dialogue driven by such concepts can help to shape and manage interdependent relations between Russia and Japan that are emerging in some sectors, such as energy resources, transportation, and environment. Regional cooperation plans and concepts must take into account political realities.

Currently, Japan has no imports of natural gas from the Russian Federation despite being the nearest country. Japan depends excessively for its imports of petroleum from the Middle East. On the other hand, Russia is the largest natural gas producer and exporter in the world. Natural gas brought from the Sakhalin Project might open up great possibilities for securing Japan's stable energy supply with the object of diversification of energy resources. And the investments from the Japanese side on these projects will provide the much-needed economic assistance for Russian economic reform. However, the projects will play a very important role in the recovery of Far eastern Russia and in strengthening Russia's links with its Northeast Asian neighbors. Sakhalin oil and gas development projects will greatly contribute to the economy of

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<sup>1</sup> Nathan. K.S., "Russia as Asia-Pacific Power in the 21st Century: Problems and Prospects", *Strategic Digest*, February, 2000, P.159

Sakhalinskaya Oblast and the management of the energy situation in Far eastern Russia. They will create new jobs, improve the business climate, and add to export earnings and growth in foreign trade. Energy resources development in eastern Russia is important for all of Russia's eastern neighbours. Japan depends on foreign countries for 97<sup>2</sup> percent of its primary energy consumption. For example, according to the report by the International Energy Agency (IEA), most of Japan's energy today comes from petroleum (52 percent), coal (17 percent), natural gas (12 percent), hydroelectric power (3 percent), and nuclear power (16 percent). This report indicates that Japan depends much more on petroleum for its energy consumption than other sources of energy. Japan can benefit from Sakhalin oil and gas resources development in many ways. Firstly, It will reduce Japan's current 80 percent dependence on the Middle East. Secondly, closer cooperation with eastern Russia can provide better economic benefits to Japan, such as reduced cost in transportation of energy resources. Thirdly, cooperation with Russia can contribute to the energy security of all of Northeast Asia. If the proposal to build the international gas pipeline between Sakhalin Island and Japan is pursued, the idea to form a gas pipeline network in Japan can be implemented. Moreover, the availability of energy is a key factor in determining the investment climate. If large, reliable energy sources are secured, prospects for economic development in eastern regions of Russia will improve.

Russia has an advantageous position in Northeast Asia. Energy projects, particularly in eastern Russia, hold great potential. The implementation of oil and gas development projects in Siberia, Yakutia, and Sakhalin would respond to the long term economic needs of Russia and the energy security needs of Japan. Its eastern areas, including Eastern Siberia, Yakutia, and Pacific provinces which hold huge energy resources and are conveniently located with regard to potential markets in China, Korea and Japan. Business development in the Russian Far east, however, may be promoted through large-scale foreign investments, particularly in Sakhalin oil and gas. Japan, China, and

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<sup>2</sup> Iwami. Toru., "Japan in the International Financial System", University of Tokyo, *Macmillan Press Ltd*, 1999, Houndmills, Hampshire, London, 1999, pp.36-37.

South Korea have shown an interest in the energy resources of Eastern Siberia and Yakutia. Japanese companies have already participated in the Sakhalin projects<sup>3</sup>.

Another potential area for Russia-Japan cooperation is the Trans-Siberian Railway's modernization. Its active international use will facilitate the flow of goods between Russian Far eastern regions and Europe. This would provide efficient railway connection between Russian Pacific ports and Siberian provinces of the Russian Federation. Many Japanese, Korean, or Taiwanese goods consigned for western Siberia are shipped around the world and enter the country either by rail or highway transport through Germany, Poland, Finland, or other Baltic states. Cooperation with Japan in modernizing the Trans-Siberian land bridge will help Russia to improve its relation with these countries and expand infrastructure to handle in the future up to 1 million containers a year or 25-30 percent cargo traffic between East Asia and Europe<sup>4</sup>. Although obstacles to investments will still need to be removed, these major projects provide opportunities for business throughout the region in terms of subcontracts and technology transfers through joint ventures with foreign partners. In this setting Japan is a prime candidate for more positive interaction, especially with respect to the Russian Far east. Given its technological and managerial expertise, its resource requirements, and its intense interest in environmental protection, Japan has much to offer, and much to gain in a new relationship with Russia. Technical assistance that supports small business should play a key role in promoting the Russian economic transition.

### **Bilateral Economic Relation (1991-2000)**

After the disintegration of the erstwhile Soviet Union, major challenges for new Russia were shifting of its economy from socialism to a market-oriented economy. During this period due to the political and economic uncertainties the Japanese business communities were very cautious with respect to risk-taking and large-scale investment

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<sup>3</sup> Sherman. Peter., " Russian Foreign Policy Since 1990", University of Melbourne, *Westview Press*, Boulder, SanFrancisco, Oxford, 1995, p.135

<sup>4</sup> Valdimir.I.Ivanov & Karla.S.Smith., " Japan and Russia in Northeast Asia: Partners in the 21<sup>st</sup> Century", *Praeger Publications*, Westport, London, 1999, p.183

in the Russian economy. The significant challenge to the Japanese economy in recent years was the Northern Territories issue. The Japanese investors were skeptical that any change in the political relation between Russia and Japan over the Kurile Islands issue might adversely affect their bilateral trade relations. Further, it was essential that trust be developed through a regularized bilateral and multilateral dialogue that covers the fullest range of issues including those in the security realm<sup>5</sup>. In this regard regular conferences were conducted on the provincial level of administration in Russia and Japan and between the countries of Northeast Asia. The recent multilateral contacts are indeed promising. There are signs that a more positive future for Russia-Japanese relations lies ahead. Despite continuing uncertainties, it seems likely that Russia will remain on the path of market-oriented economic policies and political cooperation. Thus, closer interaction with neighboring nations, especially Japan including those in Northeast Asia, can take place in an atmosphere of greater compatibility.

In the year 1991, Changes in Moscow's relation with the United States and Western Europe encouraged the Japanese government to modify its policy toward Russia<sup>6</sup>. There was a growing interest within the political, business and academic circles of Japan, in developing closer ties with Eastern Russia, particularly its Far eastern region. These regions lead the way in Far Eastern Russia's external trade investment cooperation; and academic, scientific, and humanitarian exchanges. This natural interest fully corresponds with Russia's own interests and international aspirations. Regular meetings among the governors of the Russian Far eastern province and their counterparts from Japan have taken place. According to the Japanese government, its economic policy toward Russia is now based on three major principles, which are: creation of a market economy, democratization and demilitarization, and the early conclusion of a peace treaty. From the Russian perspective, after 1992, the primary goal in relations with Japan was to secure external support for economic reform and domestic political restructuring, to preserve Russia's status in the international community, and to find

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<sup>5</sup> Shimotomai. Nobuo., "Northern territories and beyond: Russian, Japanese and American Perspectives", *Preager Publications*, 1995, pp.119-126

<sup>6</sup> Menon. Rajan., "Japan-Russia Relations and North-east Asian Security", *Survival*, Vol.38, Summer 1996, pp.59-78

ways to reconcile Russia's position with the US-Japan security treaty, to be recognized as a participant in the Asia-Pacific regional process. In 1992 nine Japanese trading companies converted \$330 million worth unpaid bills left by the former Soviet Union into a collective financial claim through the Japanese commercial banks<sup>7</sup>. Due to its economic policies adopted towards Russia, in 1992 Tokyo became actively involved in the programs of technical, humanitarian and trade assistance with the same. The grants provided by the Ministry of International Trade and Industry supported these and other activities, as well as oil production projects as a part of the G-7 assistance package to help the recovery of the Russian oil production. Further, Japan provided direct and humanitarian aid to Russia on a bilateral basis. Japan offered an aid of \$1.8 billion at the Group of Seven foreign and Finance minister's meeting in Tokyo on April 14-15 1993. As was suggested by G-7 in July 1993 the Japanese government provided a sum of \$4.5 billion to Moscow within the multilateral economic framework.

During these meetings Japan kept the territorial dispute out of the main issues in the meetings with Russia. However, Japan claimed that it retained its policy of "expanded equilibrium/balance" and reiterated that claim after the G-7 summit. Russia too asserted that its policy had not changed. And the Russian government remained adamant that there would be no territorial concessions granted to Japan on these islands. Prime minister Vioktor Chernomyrdin went further and even denied the existence of any territorial dispute between Russia and Japan. However, after discussions with former Yelstin adviser, Gennadiy Burbulis, the Japanese decided that Chernomyrdin's remarks represented his personal opinion and not the views of Russia<sup>8</sup>. Yelstin made his twice-postponed visit to Japan on October 11, 1993. In Japan Yelstin confirmed that Russia adhered to diplomatic agreements concluded by the former Soviet Union, stressed that Russia intended to demilitarize the disputed territories, apologized for the internment and forced labor of some 6000,000 Japanese soldiers in Siberia after World War II, and pledged to cooperate in settling problems arising from those acts. The two sides signed

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<sup>7</sup> Akaha. Tsuneo., "Politics and Economics in the Russian Far East: Changing ties with Asia-Pacific", London: *Routledge Publications*, 1997, pp.120-134

<sup>8</sup> Kondrashov. Stanislav, "Yelstin-Hashimoto: Without neckties but with a load of problems", *Izvestiya*, April 16, 1998

18 documents, chief among them the Tokyo Declaration and the Declaration on future economic ties. They also agreed to hold regular foreign minister's meetings twice a year, to carry out joint inspections on control over radioactive pollution of the water environment, to set up a working team for drawing up a peace treaty, and to create a system for regular summit contacts between the two countries. Soon after the summit meetings on November 1 1993, Russia eased travel restrictions for Japanese residents and this move was reciprocated by the Japanese side as they opened a Consulate General in Khabarovsk on November 11. As was suggested by G-7 in July 1993<sup>9</sup>, Japan moved ahead to help Russia rely not only upon its natural resources, but other economic assets. In November 1994, using the model of the Gore-Chernomyrdin commission, Ryutaro Hashimoto, then head of the Ministry of International Trade and Industry, launched his own program called the "Japanese Plan for the Promotion of Foreign Trade and Industry of Russia". A computerized database covering 106 Russian and Japanese enterprises were created to reveal potential Russian exporters and to inform potential Japanese importers about the products they needed. The Inter-governmental Commission on Trade and Economic Cooperation, was agreed upon during Soskovet's visit in November 1994.

The economic relationship received another boost when the then First Deputy Prime Minister Loeg Sokovets visited Japan (November 26-December 1, 1994). The two countries signed four documents designed to encourage trade and investment between them and to smooth procedures for Japanese aid: an agreement to set up a cabinet level forum to address various economic issues including trade arrears; an agreement to provide legal advice and other issues including trade system under the general agreement on Tariffs and Trade agreements; an agreement to provide Russian with technical assistance through personnel exchanges in areas such as industrial policy, economic planning and fiscal and financial policy; and an agreement to reschedule Russian debt owed to the Japanese government in the form of trade insurance, worth about \$ 180 million. While Soskovets was in Japan, the Japanese government

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<sup>9</sup> Nikonov. Viyatcheslav, " Whether the Kawana Skies are clear?", *Izvestiya*, April 14, 1998

announced new aid measures (November 28). The Ministry of International Trade and Industry (MITI) offered a three-year productivity improvement program to invite Russian consultants and company executives to Japan to train them in how to manage and restructure firms in a market-oriented economy and an industrial cooperation system to link Japanese and Russian firms to facilitate investment and technology transfer to the private sector. Japan also agreed to provide \$530 million for three modernization projects: Yaroslavneftersintez oil refinery (\$240 million), the St.Petersburg-based Impulse plant (\$140 million), and the truck building plant Kamaz (\$60 million)<sup>10</sup>. Japan moved ahead trying to help Russia rely not only upon its natural resources, but other economic assets. In November 1994, using the model of the Gore-Chenomyrdin commission, Ryutaro Hashimoto, then head of the Ministry of International Trade and Industry, launched his own program called the Japanese Plan for the Promotion of Foreign Trade and Industry of Russia.

The role of the United States and its cooperation with Japan in keeping Northeast Asia as a stable region is essential<sup>11</sup>. Russia is gradually becoming a part of the multilateral process in the region and is now being perceived by other major powers as a partner or a potential partner. In April 1996, in the Japan-US Joint declaration on Security “Alliance for 21<sup>st</sup> Century”, the two governments stated that they would continue to work together and with other countries of the region to further develop multilateral regional security dialogue and cooperation mechanism. With regard to Russia, a view was expressed that the ongoing process of reform contributes to regional and global stability and its cooperation provided the framework for “full normalization” of Japan-Russia relations based on the Tokyo declaration.

After the 1993 elections, deputy Foreign Minister Alexander Panov assured Japan that Russia’s policy had not changed (July 20, 1993). He urged upon Japan to stop linking

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<sup>10</sup> Ishaev. Viktor, “In the Russian Far East: An Economic Survey”, edited by Pavel. A. Minakir and Gregory L. Freeze, *Khabarovsk Institute of Economic Research*, 1996, p.7

<sup>11</sup> Fiesher. Viktor, “Alaska-Russian Far East Connection: Experiments in the development of Local Governance”, in Douglas Barry & Kazuhiko Okuda, eds., *Development Issues and Prospects in North Pacific Region*, *Anchorage*, University of Alaska, 1996, p.54

the issue of economic relations with the return of the disputed islands. He also supported Foreign Minister Primakov's statement that the issue should be left to the future generations; and noted that Tokyo's policy of "balanced expansion" limited the development of bilateral ties. He also suggested Japan to lift the ban on investment and trade with the disputed islands, noting that economic development would benefit both sides<sup>12</sup>. Two months later Panov became ambassador to Japan. Panov was generally careful in his remarks about the disputed islands. Yelstin, setting out priorities in border policy, averred that Russia had no territorial claims on other countries and denied "any territorial claim on the Russian Federation from other states" (October 9). The Foreign Ministry clarified the statement the following day, announcing that Russia would continue to recognize its territorial dispute with Japan. When the Deputy foreign ministers met in Tokyo (October 2-4, 1993), Russian Deputy Foreign Minister Grigoriy Karasin reported that for the first time Japan agreed to consider Moscow's proposals on joint economic activities on the South Kuriles. However, the Japanese Foreign Minister quickly responded that Japan's stance on the Northern Territories issue has not changed and its government does not intend to study the joint development proposal. It turned out that Russia had not made a specific proposal anyway.

During the G-7 meetings Russia and Japan were getting closer through cooperation within the Group of Seven (G-7) and, from 1997, as it increased people-to people contacts, adjustments in security perceptions, nuclear weapons dismantling efforts, nonproliferation policies, and a shared interest in regional stability and economic development. Russian commitment to democracy and economic reform served as a factor that led Japan to change its perceptions. In their bilateral meeting Hashimoto and Yelstin agreed to hold regular meetings, to meet unofficially, and to boost Japanese investment in Russia. Yelstin proposed a telephone hotline between Moscow and Tokyo to improve communication. The high point of the Krasnoyarsk meeting was a six-point Hashimoto-Yelstin plan of economic cooperation to be implemented by 2000. The six areas were: investment promotion, integrating the Russian economy into the global

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<sup>12</sup> Akaha. Tsuneo, " Japanese-Russian Economic Relations and their implications for Asia-Pacific security", *Transaction*, 1996, pp.197-212



economic system, further support for Russian reforms, training of Russian business executives and government officials, dialogue in the energy field, and cooperation in the peaceful use of nuclear energy.

A further change that affected Russia-Japan environmental cooperation was Japan's new greenhouse gas emissions reduction commitments under COP3. This represents, in fact, the most promising new area for systematic and proactive cooperation. In accordance with the provisions of Kyoto Protocol, (Kyoto Protocol is an international commission set up for the protection of ozone layer by reducing the emissions of greenhouse gases) adopted at COP3 in December 1997, Japan agreed to cut greenhouse gas emissions by 6 percent below its 1990 level between 2008 and 2012<sup>13</sup>. The protocol regulates six greenhouse gases, in the calculation of each nation's total emissions. Joint implementation activities whereby a nation that provides technologies to help another nation cut its emissions can count the reductions as its own can also be used to achieve Kyoto Protocol targets. Emissions of carbon dioxide in Russia declined by 20 percent between 1990 and 1995 because of its economic slowdown; Russia became a major seller of excess emissions in the envisioned trading mechanism. Japan, thus, is looking toward increased cooperation with Russia to achieve its reduction targets.

In January 1998 Japan proposed that the two nations should create a partnership to reduce emissions of harmful greenhouse gases by implementing the emissions trading and joint implementation directives. Among Japan's proposals for joint implementation were the offers of technology transfers to improve the efficiency of natural gas pipeline and thermal power plants in Russia. In this regard a meeting was convened between Russia and Japan in 1998 to discuss the reduction of emissions of these greenhouse gases. Japan invited Russia to be a member of the Asia-Pacific Economic Cooperation. Finally, with the support of Japan, Russia was invited to join the Asia-Pacific Economic Cooperation summit in 1998. This inclusion into the Asia-Pacific Economic Cooperation opened new avenues of economic assistance for Russia.

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<sup>13</sup> Granberg. Ivanov, "Japan and Russia in Northeast Asia: Prospects and Opportunities", *Finansovie Izvestia*, February 19, 1998, No.12, P.2

## **Cooperation in Energy Sector: The Sakhalin Project**

The Sakhalin Project is developed offshore of Sakhalin Island, which is approximately 450 kilometers north of Hokkaido. The population of the Sakhalin Oblast is 591,200. The Sakhalin Island is 76,600 square kilometers and makes up 90% of the state. The main industry of Sakhalin Oblast region is the energy industry, the fishery industry, and the marine product processing industry. The Sakhalin project has attracted investments and created new jobs in the Island. According to estimates of Japanese government, the Sakhalin project has attracted \$1.5 billion of investments, mainly from the U.S. and Japan, from 1995 to 2000 and created over 6000 jobs for the related projects. Furthermore, Oil and natural gas exploration projects has attracted 0.3 billion ruble of the annual revenue for the Sakhalin government, and Russian companies has received orders worth \$490 million for the Sakhalin-2 consortium. The data revealed that further development of the Sakhalin project would create over 20 thousand new jobs and 3 billion-ruble revenue for the Sakhalin state<sup>14</sup>. According to the Overseas Private Investment Corporation (OPIC) estimates nearly \$270 million goods, services, and 1,000 jobs will result from the oil and gas exploration project if offshore Oil field of Sakhalin Oblast region is explored. In fact, the royalty from the Sakhalin project has contributed to resolving pending issues such as the infrastructure building. The project involves eight mining areas, and numerous multinational consortiums including the Japanese companies. The focus of this study is on the two projects, which are called the First and Second Sakhalin (Sakhalin-1 and -2) projects, which have already started working. Originally, the Soviet government proposed the Sakhalin Project at the fifth Japan-Soviet Union Economic Joint Conference in 1972. Both the erstwhile Soviet Union and Japan felt the need for the joint development of this region due to their mutual interests involved in the development of Sakhalin Oblast region. The Soviet Union needed to develop its Far eastern region and Japan needed to diversify its energy

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<sup>14</sup> Ishaev. Viktor, "In the Russian Far East: An Economic Survey", edited by Pavel. A. Minakir and Gregory L. Freeze, *Khabarovsk Institute of Economic Research*, 1996, p.7

resources. Therefore, the joint venture invested by Japanese companies and Soviet Union companies began exploration of these islands. The production-sharing agreement between the Russian Federation and Republic of Japan for Sakhalin-1 was signed on June 30, 1995, and for Sakhalin-2 on June 22, 1994. These agreements stipulate that Russian Federal government and administration of Sakhalinskaya Oblast delegates the right to develop the offshore resources to the investors who will undertake the financing and technical implementation of the projects. It was agreed that profits from the projects will be used to recover the cost of the investment and royalty payments (6-8 percent of the cost of production), and only after that initial stage, a profit sharing mechanism will be enacted.

Under the agreement on Sakhalin-1 the Russian side will receive 15 percent of profits if the internal rate is lower than 16.5 percent, but if it is higher the Russian share in profits will increase to 54 percent with the remaining 46 percent going to investors. If this is the case, the total share of the Russian side in profits can be as high as 72 percent, including the share of the two Russian companies participating in the consortium. In the production-sharing agreement for Sakhalin-2 the share of the Russian side will be 70 percent if the internal rate of return is higher than 24 percent. If it is within a 17.5 to 24.0 percent range, the profits will be split evenly, but with a level of return lower than 17.5 percent the share of profit of foreign investors will be 90 percent<sup>15</sup>.

Within the first five years of project implementation investors must pay \$20 million to the Sakhalin Development Fund, which will be used for infrastructural improvement and social needs of the territory. At the beginning of each stage of project implementation investors make bonus payments. For example, Sakhalin Energy Investment paid \$15 million in bonuses after the production-sharing agreement was signed and \$15 million after the implementation was announced. Therefore, the initial payments from Sakhalin-1 and Sakhalin-2 projects to the Russian side amounted to \$60

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<sup>15</sup> Satoshi. Tsubata, "Management structure of natural gas industry in Russia", Tokyo: *Koyo Shobo*, 1997

million, including \$32 million to Sakhalinskaya Oblast. More bonus payments are expected after the production begins in each of the fields.

The production-sharing scheme serves as an effective mechanism to attract foreign investment and advanced technology for the development of oil and gas. In the future production-sharing agreements, the resource development projects will be more attractive to foreign and domestic investors if the federal law enacted on January 11, 1996, on production sharing is adjusted further to serve the needs of both investors and authorities. Sakhalin-1 project covers three mining blocks, Odoptu, Chaivo, and Arkutun-Dagi, which is 25 kilometers east offshore of the Sakhalin Island. However, during initial phases of the exploration, the project made no business sense because of low crude oil prices and the chaos caused by the collapse of the former Soviet Union in 1992. After the formation of the Russian government, the new joint venture organized by Sakhalinmorneftegaz (SMNG, Russia, 23 percent), Rosneft (Russia, 17 percent), Sakhalin Oil and Gas Development (SODECO, Japan, 30 percent), and Exxon (U.S., 30 percent) has resumed exploration. In 2000, Rosneft and SMNG had disposed of their half equity to Oil and Natural Gas Corporation (ONGC, India).

Sakhalin-2 project covers two mining blocks, Piltun-Astokhskoye and Luns koye, which is 15 kilometers northeast of the Sakhalin Island<sup>16</sup>. In 1991, the Russian government put the right to develop these two areas for international competitive bidding, and Marathon (U.S.), McDermott (U.S.), and Mitsui Corporation (Japan) bided off. Afterwards, these three companies with Royal-Dutch/Shell (Netherlands) and Mitsubishi Corporation (Japan) had made production-sharing contract with the Russian government in 1994. In 1997, the first oil from Sakhalin-2 was exported to Korea. The project was designed to double the rate of the production of oil (180,000 barrel per day) by 2005.

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<sup>16</sup> Kazuo. Umezu, *“Management structure of natural gas industry in Russia”*, Tokyo: Koyo Shobo, 1997

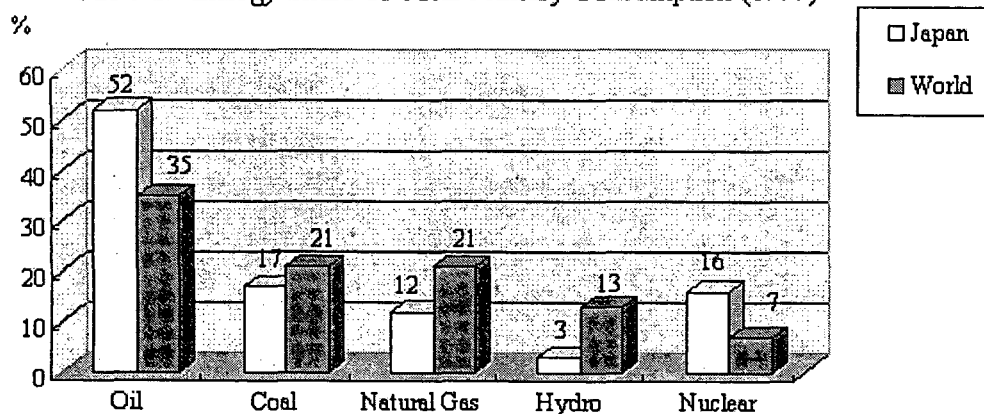
Table 1. Over view of Sakhalin 1 and 2

Projects	Shareholders	Estimated Oil reserves (billion barrel)	Estimated Gas reserves (billion cubic feet)
Sakhalin-1	SODECO (30%), Exxon (30%), ONGC (20%), SMNG (11.5%), Rosneft (8.5%)	1.3	183
Sakhalin-2	Marathon (37.5%), Mitsui (25%), RD/Shell (25%), Mitsubishi (12.5%)	0.91	457

Source: Data compiled by the author from Japan Association for Trade with Russia and Countries of Eastern Europe, *Monthly Bulletin on Trade with Russia and Eastern Europe*, 1998

Energy is essential for the human race to develop. Since recorded history, there have been armed conflicts among nations scrambling for energy resources. Ensuring a stable energy supply has been a first priority for nations. In fact, one of the reasons that Japan invaded China and the other Asian countries just six decades ago might be for securing plentiful energy resources. Even now, after over half a century, Japan has continued to depend for its energy supplies from other countries, and the Oil and gas reserves of Sakhalin Oblast region serves one of Japan's primary energy sources.

Table 2. Energy Share of Total Primary Consumption (1999)



Source: Data compiled by the author from Japan Association for Trade with Russian and Countries of Eastern Europe, *Monthly Bulletin on Trade with Russia and Eastern Europe*, 1999

One of the worst energy vulnerabilities for Japan is the excessive dependency on petroleum from the Middle East<sup>17</sup>. This excessive dependency might contain two serious obstacles for Japan. One is blockade. The other is ballooning oil prices. After World War II, Japan has increasingly expanded energy consumption, especially oil, with the traditional growth of its economy. At present, over 86 percent of petroleum, the main energy resource comes from the Middle East countries. Oil from the Middle East to Japan, runs the risks of blockade. Most oil tankers from the Middle East come through the narrow Strait of Malacca between Malay Peninsula and Sumatra Island of Indonesia. This geopolitical weakness might imply that not only pirates, but also a government could easily blockade and cut off the oil supply to Japan. Natural gas brought from Sakhalin Oblast region might open up great possibilities for Japan's continuous energy supplies. In the year 1997, for meeting its growing demand of Oil and natural gas for its economy, Japan set up a Working Group to monitor its requirement on natural resources and energy security. The Energy Security Working Group report was released in the year 2000 by the Japanese Agency of Natural Resources and Energy. According to the report of the Working group, the Japanese government was concerned that if blockades force these tankers to sail on an indirect course, such as through the Strait of Lombok of Indonesia, the arrival price of oil into Japan will dramatically increase and cause panic not only for the Japanese economy, but also for the Asian countries which have not stockpiled enough oil. Furthermore, the volatility of crude oil prices can exert a serious influence on Japan's budget, because oil imports constitute a large share of Japan's total imports.

The shipping system of natural gas is classified into two ways, a liquefied natural gas (LNG) and a pipeline natural gas (PNG). Japan imports natural gas by the way of LNG that accounts to about 97 percent of the total gas imports. The construction of LNG plant allegedly needs enormous investment at the stage of development, liquefaction, and transportation. Therefore the contract term is spread over a long period; LNG prices are often higher than that of oil. Furthermore, the cost of transportation allegedly makes

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<sup>17</sup> Ivanov .Vladimir, " Japan and Russia in Northeast Asia: Prospects and Oppurtunities", *Current Development Concept*, Novorosibirsk: Siberian Branch of the Russian Academy of Sciences, 1998, p.28

up 20 percent to 40 percent of the arrival price of LNG. For this reason, generally, in the case of short distance transportation of less than 3,000 kilometers, PNG can minimize costs of transportation. The Sakhalin Island is about 2,200 kilometers from Kanto, which is the main consuming region of the energy in Japan<sup>18</sup>. The Sakhalin-1 consortium intends to deliver natural gas via pipeline. The consortium established the company to research the feasibility of the pipeline from the Sakhalin Island to markets in Japan in 1999. According to the news release by Exxon Mobil (August 26, 2000), the feasibility study began in April. It addressed issues related to route selection and design standards, as well as environmental and regulatory considerations. The results of the study indicate that a 26 to 28 inch natural gas pipeline, with capacity to deliver about 800 million cubic feet a day, is both technically and commercially feasible." However, some analysts show that the price of the Sakhalin PNG toward Japan will be slightly higher than that of LNG. Amy M. Jaffe, the senior energy advisor of the James A. Baker III Institute for Public Policy of Rice University reported at the Advisory Committee for Natural Resources and Energy of the the Agency of Natural Resources and Energy in 2000 that the PNG price from Sakhalin toward Japan will be \$2.00 to \$2.80 and PNG price \$1.90/MMBTU. One of the reasons of rise in PNG price might be expensive construction cost of pipeline. The labor cost and the unit land value in Japan is so expensive that single pipeline builder might not be able to raise funds.

On the other hand, the Sakhalin-2 consortium supplies its gas through LNG. Supplying by way of LNG will make it possible to deliver the Sakhalin gas not only to Japan, but also to China, Korea, Taiwan, and the North America. Furthermore, the supplies of gas through LNG have the advantages of being cheaper in comparison to other modes of supplying gas. Whatever the case may be, Japan will benefit by securing a stable energy supply and diversifying its energy sources. In fact, the report of the Natural Gas subcommittee of the Ministry of Economy, Trade and Industry (METI) of the government of Japan (2000) propose strengthening the strategic relationship between Russia in energy cooperation, and official support for constructing a domestic pipeline for promoting consumption of natural gas in Japan. As a measure to reduce the

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<sup>18</sup> Grigori. Yavlinski, "Russia: Round, round and round at Sakhalin", *Petroleum Economist*, 60 (8), August 1998, pp.41-43

consumption of Oil and petroleum, Japan has already adopted measures to shift to gas run automobiles and locomotives. In this regard Japan is attracting the use of gas run locomotives and automobiles by reducing its prices. A rise in demand of natural gas consumption in Japan will directly encourage an increase in gas export from the Sakhalin Project<sup>19</sup>.

Increase of natural gas brought from the Sakhalin Project has a significant environmental impact on Japan. Compared to the other fossil fuels, natural gas has environmentally some attractive features. The report by the Agency of Natural Resources and Energy of the Japanese government shows that LNG power generation plant emits less carbon-dioxide (564 g-CO<sub>2</sub>/kWh) than coal (945 g-CO<sub>2</sub>/kWh) and oil (742 g-CO<sub>2</sub>/kWh) fired power plants. In fact, the International Energy Outlook 2000 estimates that natural gas consumption by electricity generators shows more rapid growth than consumption by any other fuel. Natural gas consumption for electricity generation will increase by 4.0 percent per year in the industrialized countries, compared with -0.1 percent for oil and 0.9 percent for coal. Energy conversion from oil and coal to natural gas in Japan will help to achieve this commitment.

The Kyoto Protocol agreement was signed by 144 nations including Japan in the year 1997. This treaty is mandatory for all member nations. The treaty makes it mandatory for all member nations to reduce the emissions of harmful ozone gases especially chlorophlora carbons (CFCs), which are a threat to the environment and lead to global warming. The Kyoto Protocol stipulates that Japan has to cut emissions of carbon-dioxide by 6 percent by the year 2010. To achieve this goal, the Japanese government promotes the development of the Sakhalin project as a national policy. In fact, the report of the Natural Gas subcommittee of the Ministry of Economy, Trade and Industry of the Japanese government (2000) proposed strengthening the strategic relationship with Russia in energy cooperation, and official support for constructing a gas pipeline from Sakhalin to Japan for promoting consumption of natural gas in Japan.

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<sup>19</sup> Matthew. J.Sager, "Prospects for oil and gas development in Russia's Sakhalin Oblast", *Post-Soviet Geography*, 36 (5), May 1998, pp.274-290



However, there are some problems in transferring natural gas from Sakhalin to Japan via pipeline. One is the expensiveness of the construction cost of pipeline. The labor cost of pipeline and the unit land value in Japan is so high that single pipeline builder cannot raise funds. Furthermore, many regulations in Japan, such as the ground use and pipeline specification drive up construction costs. The other problem is domestic gas demand in Japan. Although Japan has adopted measures to attract more use of gas automobiles by reducing its prices, it cannot expect domestic gas demands to increase overnight. If the Sakhalin project cannot acquire the domestic gas demands in Japan, the pipeline project can prove unprofitable. One of the methods of approach is to heighten the need for natural gas of end users in Japan by encouraging the construction of domestic pipeline. However, Japan believed that if their domestic demand for gas consumption does not increase to the expected levels, then it could connect these gas pipelines to Europe. For example, the total pipeline distance is 3,000 kilometers in Japan. Connecting the existing pipeline to end users in Europe will directly promote the Sakhalin pipeline project in which Japan has made huge investments. This plan will encourage using pipeline natural gas in Japan and Europe.

Currently, Japan has no imports of natural gas from the Russian Federation despite being the nearest country. All of Japan's natural gas today comes from eight countries (See Table 3.) Furthermore, Figure 3, shows that Japan is the greatest LNG importers and world trade trend of natural gas is by PNG<sup>20</sup>. Because of geographical restrictions, Japan has extremely depended on Middle East oil for its growing oil and petroleum demands. As a measure to improve the position of its energy security Japan should start investing in the Russian Oil fields. This will not only help Japan to solve the problem of its energy security to a larger extent, but improved relation with Russia on economic front will inevitably help to improve its political relation with Russia.

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<sup>20</sup> Steven. S.Rosefielde, "Peace and Prosperity in the Pacific rim: Optimizing the benefits of Japanese assistance to Russia", *Acta Slavica Iaponica*, No. 12, 1998, pp.46-61

Table 3. JAPAN - Natural Gas Import Movements 2000 - by LNG\*

	From								Total
	USA	Oman	Qatar	UAE	Australia	Brunei	Indonesia	Malaysia	
To Japan	1.79	0.83	8.30	6.89	10.1	8.20	22.7	15.3	74.1 Bcm**

\* LNG (Liquefied Natural Gas)

\*\* Billion cubic meters

Note: Flows are on a contractual basis and may not correspond to physical gas flows in all cases.

Source: Data compiled by the author from Japan Association for Trade with Russian and Countries of Eastern Europe, *Monthly Bulletin on Trade with Russia and Eastern Europe*, 2000

Generally, the LNG price in Japan is linked to the average CIF (cost, insurance, freight) price of petroleum, which is relatively expensive because of the Asian Premium-inclusive prices. In fact, as compared with the average LNG import prices into Europe and the United State from 1993 to 2000 and the pipeline gas prices, the price in Japan is slightly expensive than the others<sup>21</sup>. On the other hand, Russia is the greatest natural gas producer and exporter in the world. Especially, for Western Europe, the Russian gas has an important role to meet its gas demands. Currently, all of the Russian gas toward Western Europe is carried through the gas pipelines, which were constructed all over the Western Europe markets in the 1960s. However, according to the report by The Royal Institute of International Affairs (1998), Gazprom, the key Russian Energy Company has announced plans to focus its strategy on penetrating the Asian market. The economic growth in Asia might change the Russian energy strategy. This may encourage the construction of the trans-boundary pipelines, which connect China, North and South Korea, and Japan to the Siberian natural gas resources.

<sup>21</sup> Keun-Wook. Paik, "A Northeast Asian gas grid?", *Geopolitics of Energy*, January 1, 2000, pp.6-10

## Trade Relations

Trade between Russia and Japan remains low<sup>22</sup>. Russian exports have surpassed imports but still consist mainly of raw materials. Japan's direct exports to Russia have fallen while flow of consumer goods through other countries increased. Some Russian and Japanese companies discuss promising projects, but only a few have entered an implementation stage. There are no significant Japanese investments in Russia (with the exception of the Sakhalin projects in which US and British companies are involved as leaders). Slow progress in Russia-Japan trade cannot be explained by the current economic transition in Russia alone. Many other companies of developed countries, including French, Italian, German, and US, have established a more solid presence in Russia, including its far eastern provinces. In general, for the first half of 1990's, Russia-Japan trade was unstable. Its volume decreased sharply in 1992, rose to \$5.93 billion in 1995, and fell again in 1996<sup>23</sup>. Russian exports to Japan increased while imports fell, so trade became more favorable for Russia.

Table. 4 Russia-Japan Trade Statistics 1998

Year	Total	Total Exports to Russia	Total Imports from Russia	Balance
1990	5,913.8	2,562.8	3,350.9	-788.1
1991	5,430.5	2,113.7	3,316.8	-1,203.1
1992	3,479.7	1,076.7	2,402.9	-1,326.2
1993	4,270.0	1,500.8	2,769.2	-1,268.4
1994	4,657.5	1,167.2	3,490.4	-2,323.2
1995	5,933.5	1,170.1	4,763.3	-3,593.2
1996	4,973.5	1,024.7	3,948.8	-2,924.1

Source: Monthly bulletin on Trade with Russia and Eastern Europe. (Tokyo: Japan Association for Trade with Russia & Central-Eastern Europe and the Institute for Russia & East European Economic Studies, 1998.)

<sup>22</sup> Vladimir. I. Ivanov, "Russia and its Far east: Sources of conflict and hope", *Journal of East Asian Affairs*, 8(2), 1994, pp.482-521

<sup>23</sup> Japan Association for Trade with Russia & Central-Eastern Europe, "New economic relations between Russia and neighboring countries", *Institute for Russian & East European Studies (ed.) Tokyo.*, 1997, p.45

With other developed countries Russia also has a trade surplus. The volumes of trade is still small: The share of Japanese exports to Russia forms only 0.26 percent of total exports, and its imports constitute only 1.42 percent. A drop in domestic investment in Russia reduced the demand for big-ticket items from Japan, such as large-diameter pipes for oil and gas projects. In 1996, the share of imports of machines and equipment from Japan reached 74.6 percent. The share of ferrous metals (pipes and other rolled commodities) fell from 21 percent in 1994 to 5.6 percent in 1996. Chemical products, textiles and foodstuffs consisted less than 4 percent by 1997.

Table.5 Composition of Russia's Trade with Japan, 1992-96  
(in million dollars)

<b>Exports and Imports</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
<b>Exports</b>					
Fish and Seafood	582	710	1,025	1,323	1,221
Timber	465	617	619	770	687
Metals	710	880	1,296	1,979	1,484
Steel Products	99	127	175	179	117
Non-Ferrous Metals	609	752	1,120	1,797	1,347
Platinum	223	179	302	402	318
Palladium	116	164	233	319	214
Aluminum	150	335	485	808	691
Total	2,403	2,769	3,490	4,763	3,949
<b>Imports</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>
Metals	109	376	229	80	57
Pipes	59	222	130	76	42
Central machinery and equipment	703	847	228	439	282
Electronic goods	235	224	308	311	291
Television Sets	27	27	13	64	108
Video tape recorders	42	37	27	42	38
Transport equipment	151	163	88	97	153
Total	1,077	1,501	1,167	1,170	1,077

Source: Compiled and calculated by the Economic Research Institute of the Russian Academy of Sciences using regional statistical data and data published by the State Statistical Committee of the Russian Federation, 1998, p.39

The economy of the Far eastern provinces had become more dependent on exports to Japan. This situation is reflected well in trade with Japan. Exports have increased with the growth in deliveries of traditional raw materials, mainly fish and seafood, metals, and timber. However, a further increase in exports of these commodities is limited both by the capacities of the Russian side and the demand on the Japanese side<sup>24</sup>. Because of high risks in Russia, starting in 1992, Japanese companies delivered goods to Russia mainly on advance payment terms. The lack of financial facilities and resources of Russian enterprise limited exports from Japan to Russia. Apart from this the high rate of Yen for several years within this period negatively influenced export prices from Japan. In view of the low purchasing power in Russia, local importers of consumer goods looked for cheaper sources.

During the transitional period, so-called individual trade boomed in Russia with hundreds of thousands of individual traders traveling abroad to purchase goods for resale in the Russian local markets. The volume of such a gray area of imports and exports became quite significant. In Japan's case, with its strict visa entry regime and high consumer goods prices, such forms of transaction were revealed in large volumes. Russians exchanged fish and seafood for used cars and electric appliances when Russian ships called at Japanese ports. However, trade through the barter exchanges of fish, metals, coal and timber from one side and television sets, used or new cars, and other commodities from the other side have its limits.

### **Investment Links**

The new potential of Russian-Japanese economic exchanges can be found in investments and industrial co production. In spite of the opening of foreign trade insurance facilities by Japan's MITI and loans by the JEXIM, the existing procedures in Russia are extremely time consuming. Before 1998 it was also difficult for Japan to change the list of projects or transfer new credits before the current trade insurance

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<sup>24</sup> Economic Planning Agency of Japan & Ministry of Economy of the Russian Federation (eds.), *Report of the Japan-Russia joint research project on the Russian economic reform*, Tokyo, Economic Planning Agency, 1997, p.33

funds and loans were utilized by the Russian side. However, both countries should endeavor to achieve a new quality of cooperation in various fields that can serve their national interests, benefit their economic security, and contribute to economic growth. Such an economic partnership can be designed along the following key directions:

- diversification of links in raw materials extraction, processing and exports
- investment promotion in Russia for import-substituting products
- design, production, and marketing of new products
- cooperation in advanced technologies
- financial links aimed at support for joint projects
- infrastructure-building to facilitate trade and joint projects
- mechanism creation for contracts at governmental, local, and private levels, and
- coordination in ,multilateral, regional, and international organizations.

Diversified economic links could benefit both countries. Japan could benefit making its products accessible to a sizeable Russian market and securing access to reliable guaranteed sources of energy supplies from Russia<sup>25</sup>. It could benefit from investing capital in Russian enterprises and the creation of new products. Russia could have better access to financial resources, advanced technologies, management know-how from Japan. Energy resources development, raw materials processing, transportation, import substitution, high tech cooperation and other areas could become promising areas of cooperation and division of labor, creating significant commercial advantages for both nations. The energy sector is becoming a core area of bilateral cooperation. The Sakhalin projects alone (which have already started) have played a significant role in Russian-Japanese cooperation. In the not-so distant future, they will lead to an increase in the volumes of trade. Recently government and private business organizations have started intensive discussions on the possibility of gas exploration in Irkutskaya Oblast and Yakutia. The implementation of Sakhalin and other Far eastern and Siberian oil and gas exploration projects will contribute to export earnings and improve energy supplies

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<sup>25</sup> Peter. Breton, "A new Russo-Japanese alliance?: Diplomacy in the Far East Asia", *Acta Slavica Japonica*, 11, 1999, pp.55-78

in the Far eastern provinces, thus helping their local economic activities. Far eastern enterprises can also benefit from subcontracts for equipment and construction works, leading to more jobs. Japan, by utilizing the advantage of geographical proximity and its own role in exploration and development of the new sources, will enhance its energy security. Both countries with their combined natural, financial, and technological resources could consider the creation of an integrated system of energy supplies in North East Asia.

Russia-Japan cooperation will be enhanced by the revival of volumes of transit transportation from Japan to Europe and Central Asia through the Trans-Siberian railway, which will be modernized along with ports, roads, and other infrastructure<sup>26</sup>. This will contribute to Russia's internal integration as well. The volumes of goods with Japanese major brand names exported to Russia is becoming so large that it may become economically reasonable to consider local production. Japan is continuing to move its industries abroad. Russian enterprises, considering emerging local markets, could become the recipients of Japanese direct investment. The imports of manufactured goods will be eventually replaced by local output supported by foreign companies, including Japanese firms. There is a need to facilitate cooperation in advanced technology. Governments should support such linkages by special financial and other measures, such as the 1996 Russian high-tech exhibition in Tokyo sponsored by the Association for Trade with Russia and Countries of Eastern Europe. A successful example of such linkages was a contract to supply aluminium cast car wheels. These wheels are especially designed for Japanese cars and produced in Russia from ultra light alloys with the use of unique press equipment.

The total volume of trade between Russia and Japan currently under review or at various stages of implementation was estimated at \$12-14 billion (excluding Sakhalin projects) in the year 1998. Their implementation will lead to a substantial growth in the volume and structure of bilateral trade. Active and regular contacts at the senior

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<sup>26</sup> Blank, Stephen, "Imperial decline: Russia's changing role in Asia, Durham, N.C: *Duke University Press*, 1998, p.9

management level of big companies on both sides can help to move these projects forward. However, this requires efforts by business leaders and private business organizations. Russia should also take steps in creating a special investment climate for Japanese investors, including the following possible measures.

- mutual support and protection of investment agreements
- effective mechanisms to deal with claims by foreign investors
- information exchanges (within the Hashimoto Plan)
- the Russian Centre for Investment promotion in Tokyo
- enhanced Japan External Trade Organization activities in Russia, and joint market research efforts.

The usual concern of Japanese companies in their business contracts with Russia is the limited opportunity to apply their own principles of planning, management, and risk prevention based on collective decision-making. Because Japanese commercial banks do not like to finance projects in countries with a high investment risk climate, special efforts must be made by the Russian side to lower the perceived investment risks<sup>27</sup>. In this regard Russia needs to adopt the following measures:

- political stability which requires constitutional reform in the long-run and negotiations on a common vision among major parties
- fast membership in the WTO and more active membership in the OECD and other international organizations
- broad attempts to strengthen the rules of law so that people and investors have more confidence in government and market institutions
- a broad reform of the banking system and introduction of deposit insurance plus competition in retail banking
- realistic and stability-oriented macroeconomic policies including a privatization policy which stimulates growth and considerably raises long-term revenues

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<sup>27</sup> Economic Planning Agency of Japan & Ministry of Economy of the Russian Federation (eds.), "Report of the Japan-Russia joint research project on the Russian economic reform", Tokyo, *Economic Planning Agency*, 1997, p.39



- adopting stricter competition laws and demonopolization of network industries
- adopting full privatization and free trade in some sectors so that the benefits of private trade can be realised
- promotion of manufacturing exports in order to stimulate growth
- improvement of regional and local investor regulations so that a domestic or foreign investor no longer will need about 100 signatures to embark upon a major investment project. Foreign direct investment will be growth-enhancing only under certain conditions, i.e. the degree of complementarity and substitution between FDI and domestic investment will play a crucial role
- serious attempts to nurture new firms and encourage private entrepreneurship measures to attract considerable foreign direct investment in all major sectors of the economy.

### **Financial Links**

Only official financial instruments are currently used in Russia-Japan cooperation. Because of high risks, private banks avoid the extension of financial credits and other facilities to Russian companies and private banks. There are only a few cases of direct Japanese investment in Russia. Official support by Japan is extended in the form of credits by JEXIM and export insurance provided by MITI. The Russian Federal government extends guarantee for this assistance, but the volume is limited and has to be approved every year through the state budget<sup>28</sup>. In contrast, both the JEXIM credits and MITI insurance funds have not been utilized for three years because of defects in the selection procedure of projects and the requirements that enterprises must allocate 15 percent of the required funds in advance. It became clear that practices for opening credit lines and then filling them with projects became outdated.

Instead, the selection of projects with a high level of investment readiness was proposed, as well as changes in the procedure to allow flexibility in decision-making. The Russian government must improve and expand mechanism for investment

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<sup>28</sup> Japan External Trade Organization, "Japan's direct investments in Russia: Comparison with USA's investment", Tokyo: *Japan External Trade Organization*, 1998, p.43

guarantees. The so-called Development Budget designed with reference to the Japanese experience of the early 1950's offered a maximum 40 percent state guarantee for projects with the private investments or credits. It can be seen as an instrument to attract Japanese investments, especially in the Far eastern enterprises. The JEXIM extended three credit lines to Russia. The first one is the \$200 million credit for telecommunication lines construction to connect Japan and Europe<sup>29</sup>. The second credit lines of \$400 million is called an investment credit and is used for the Impulse company in St.Petresburg, the KAMAZ truck manufacturing plant, and an oil refinery in Yaroslavl. The third credit line of \$500 million is called a humanitarian credit. It was initially designated for the construction of medical facilities in the Far East, but later was expanded to include the modernization of several industrial enterprises.

Japanese corporations do not accept the guarantee of regional administrations and major Russian commercial banks. However, MITI has taken a step forward by acknowledging the short-term letters of comfort from nine Russian banks as a form of guarantee for projects financed through the MITI External Trade Insurance Fund. Within the first stage of using the \$1.1 billion insurance money, steel pipes and machines were delivered to Russia for construction and repair of gas pipelines. The balance is being negotiated. The Japanese side tends to consider big oil and gas projects, where the funds can be quickly recovered. However, normal mechanisms of commercial financing do not exist. Compared with Japan, other countries more readily accept mixed guarantees including guarantees provided by the consortium of Russian banks, guarantees issued by regional administrations, and accepting shares of the Russian enterprise<sup>30</sup>. In this respect the Japanese companies lack competitiveness. Various approaches should be explored to support projects of different sizes and ranges of implementation. Private financing is available only to profitable projects, particularly those in the energy sector. The government has a very significant role to play in this area through production-sharing agreements, special legislation on the development sites and active participation of local administration.

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<sup>29</sup> Hiroshi. Kimura "Japan G-7 approved Russian aid", *Far Eastern Review*, July 22, 1996, p.83

<sup>30</sup> Hiroshi. Kimura, "Yelstin's visit and the outlook for Japanese-Russian relations", *Journal of NorthEast Asian Studies*, 13(2), 1996, pp.46-60

## Organizational Improvements

A network of intergovernmental and private contracts is critically important for progress in economic exchanges. This network can include the formation of working groups when necessary in areas such as international finance, energy projects, transport, technical cooperation, small and medium enterprises, currency and export control, customs, emergency situations, and environmental issues. Energy resources development, processing of raw materials, timber, fish and marine products), high-tech cooperation, import substitution (audio and video equipment), and transportation could be areas of profitable commercial cooperation and division of labor.

The business communities of both countries, however, should establish direct exchanges and regular contacts if they want to utilize the existing trade and investment opportunities. Both the Russian and Japanese governments are expected to lead the process of exchanges and to facilitate private contracts. In 1995 governmental commissions for economic cooperation were formed. They continued to serve as the main channel for economic exchanges between the two countries. In a memorandum both sides decided on the main functions, structure, and procedures for meetings of these commissions. The chairman of the Russian side is the deputy prime minister, on the Japanese side the minister of foreign affairs is in charge. Three subcommittees were created to deal with terms and conditions of bilateral economic ties, promotion of market reforms in Russia, and economic links with the Far eastern provinces. The first meeting was held in Moscow in March 1996, during the visit of the Japanese minister of foreign affairs (the joint documents for the first meeting of the commissions were drafted by subcommittees). The second meeting was held in Tokyo in June 1997. Credit agreements for three projects were signed<sup>31</sup>.

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<sup>31</sup> Institute for Russian & East European Economic Studies (ed), *Russia no boeki kanri taisei no haikai to genjo* (Background and current status of Russia's trade management system, Tokyo: *Journal of NorthEast Asian Studies*, 1998, p.91

Apart from the commissions, regular contacts have taken place between the Russian Ministry of Economic planning Agency of Japan, as well as between the Russian ministry of Economy and MITI. Consultations are taking place concerning the opening of a representative office of the Russian Centre for Promotion of Foreign Investments together with the Russian Chamber of Commerce and Industry. Its main task would be to supply Japanese investors and businessmen with information. However, to attach more significance to their activities the level of commissions should be raised. Unlike the US-Russia relations, private contacts between Russia-Japan remain underdeveloped. There are many business associations in Russia, but none of them is influential enough to represent the whole business community. Compared, for example, to Keidanren or the chambers of commerce and industries in other countries, Russian business associations are weak. Many practical issues and specific projects are being solved in the framework of government commissions and not by business councils or committees. The organizational support for Russian business in Japan is inadequate, too. With the exception of the two timber companies, no Russian technical companies or agencies have opened their office in Japan since 1992. In contrast, Japanese companies have gradually expanded their office network in Russia, both in Moscow and in the far eastern regions. Practically all-big trading companies have opened offices in the Far eastern provinces. Many well-known Japanese automakers also have established their presence and have formed dealership networks. There are outposts of some Japanese banks in Russia as well.

### **Technical Assistance**

Ryutaro Hashimoto initiated the program of technical assistance during his term as head of MITI. Hashimoto's plan has three objectives: to support Russian reforms, to raise the productivity of Russian enterprises, and to promote Russian exports to Japan. Various projects are under implementation, including educational centers, assistance to Russian enterprises, the Far Eastern Regional Venture Fund, and others. MITI, Japan External Trade Organization, Association for Trade with Russia and countries of Eastern Europe, and other organizations are participating in this scheme. In Russia the Ministry of

Economy is the coordinator that leads the activities of various ministries, chambers of commerce, and other organizations.

Japanese experts, for example, consulted several Russian enterprises on the problem of restructuring and efficiency (Murom Machine building Plant, Krasnoyarsk Steel works, Sharm textile factory, Selenginsk Pulp and Paper works, and electronics factory near Moscow, and others.) Seminars on management were conducted and Russian specialists were trained in Japan. Centres on train specialists for medium and small enterprises were opened in Moscow, Khabarovsk, and Vladivostok<sup>32</sup>. However, technical assistance should facilitate not only informational or educational exchanges or consulting efforts but also Japanese investment in Russia. Joint research can be initiated and pre-feasibility studies for investment projects, including those of the far eastern development. Plans for the restructuring of selected Russian enterprises can be linked with efforts to attract investment from Japan. Support for small and medium enterprises can also consult an important area of activities reducing unemployment and supporting local industries. Experts from both countries can also study and discuss possibilities for applying the experience of Japanese companies in the United States. They can also look at the investment environment in China, their experiences in forming joint ventures, and their operations in free economic zones. They may analyze the experience of Russian companies dealing with their counterparts from the United States and Europe, particularly in financing big projects.

The progress in economic cooperation between Russia and Japan, in which both countries have a stake, depends upon mutual efforts by the governments and business communities of both countries to improve conditions for trade and investment cooperation. The level and range of contracts between Russia and Japan in the economic field, both at the governmental and private levels, has expanded during recent years. Contracts have become more regular and frequent; they are supported by mechanisms at the working level. Discussions are wider and aimed at facilitating solutions for practical problems. Through the governmental commissions Russia and

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<sup>32</sup>Ivanov. I. Valdimir, "Japan and Russia in Northeast Asia", *Erina Report*, 19 October, 1997, pp.15-27

Japan can now discuss the problems of development of the far eastern region, including projects of the federal development program for the region. They can work out mechanisms for the selection of projects that are eligible for credits by the JEXIM. Working together both governments can better manage the problems of investment risks, financial guarantees, and other forms of support for bilateral projects.

The regional ties between the Far eastern provinces of the Russian Federation and Japan during the last five years have expanded. There was growth in trade, particularly in fish and marine product exports from Russia. The general conditions and infrastructure for doing business in the Far East of Russia has also improved in telecommunication services. Leading Japanese companies have opened their offices in major cities of the Far eastern region<sup>33</sup>. The Japanese government wants to focus its official assistance and credits on the Far eastern economic region, and economic cooperation with the eastern part of Russia stands as a separate subject in official bilateral dialogue and private talks. Business organizations and research centers in Japan pay special attention to the Far East. On the Russian side, regional administration and organizations want to promote economic cooperation with Japan and other Asia-Pacific nations. There is a network of special relations emerging between some Russian provinces and some Japanese prefectures. All these entities play a more active role in the promotion of economic exchanges between the two countries. These activities of the joint commission on economic cooperation between Hokkaido and three Russian Far eastern provinces (established in 1992) should be noted for its special contribution to bilateral cooperation.

It is quite realistic to expect the expansion of bilateral trade to \$20-30 billion by 2005. Diversified investment links and various forms of investments, joint projects in research and development, and technical and financial cooperation are highly possible as well. Both Russia and Japan need to increase the share of processed goods in Russian exports. Moreover, efficient mechanisms for business contracts on various levels are

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<sup>33</sup> Valenica. Mark, "The Russian Far East in Transition: Opportunities for regional economic cooperation, Boulder, Colo: *Westview Press*, 1995, p.45

needed. Both countries should assist contracts and expand existing channels of communications at the private level. Especially Russian leading companies, commercial banks and industrial groups should cultivate ties with their Japanese counterparts and more actively participate in exhibitions, conferences, and other business events in Japan. Currently Russia-Japan joint projects, especially in the Far Eastern provinces, target raw materials extraction. Such large-scale and capita; intensive ventures create only a limited number of jobs. These joint ventures are possible in timber and fish processing, import-substituting products manufacturing, auto assembly, and technical services (considering the imports of used cars from Japan to eastern Russia). They will improve only the local employment situation and contribute to the restructuring of local economies.

## **Chapter 3**

### **Russia-Japan Security Relation**



## Russia-Japan Security Relations

The purpose of this chapter is to summarize the conclusions, about what constituted to be the threats for Russian security during the time period from (1991-2000) in its Far Eastern region, to assess these threats and to propose ways to address them effectively. It sorts out genuine security problems from a broader regional perspective, addresses these problems in the Russian Far East, and explains as to how Russia's relations have changed over these years with Japan and the United States. This chapter places highest priority on Russian security perspectives and highlights new threats, while placing traditional security and border disputes in a new light. Prior to the Bolshevik revolution in 1917, the Russian Monarchy exercised its full control over the military. During the communist rule, civil-military relations were characterized by strong party control over the military. The leadership of the Communist Party determined under what circumstances and to what degree the military should be involved in politics, and the military strictly followed the party's directions. The military's compliance was ensured through politicizing the army and making the high command and officers members of Communist Party. In addition, the institute of military-political commissars was established to monitor the day-to-day activity of the officers and soldiers at all levels. Party control of the military was extremely efficient in preventing the military from any unregulated involvement in the foreign and domestic politics of the state. Mikhail Gorbachev started the process of liberalization. The search for a new doctrine refining the military's role in society began in the late 1980's, but before it could be completed, the Soviet Union disintegrated. As a result, the newly established Russian Federation had to reform its military and to redefine the principles of civil-military relations suitable to a democracy. This task was clearly complicated by the fact that the 1993 constitution of the Russian Federation failed to define the role of the armed forces in society.

Contemporary reformers of the civil-military relations have focused on increasing civilian control of the military through the legislature and the Ministry of Defense, as well as on the increasing role of the President in defining the role of the military in politics. To ensure legislative oversight of the military, Russian Parliament has created

several Duma Committees dealing with issues of security and defense, including the Defense Committee and the Security Committee. In addition, legislators exercise a certain degree of control over the military through budget appropriations. At the same time, Presidential influence over the military has become more visible over the years. According to the constitution, the president of the Russian Federation appoints and dismisses all ministers, including the minister of defense. He also nominates the members of the Russian Security Council, which he chairs; approves the military doctrine of the Russian Federation; appoints and dismisses higher military commanders; and is the supreme commander of the armed forces. These constitutional provisions guaranteed presidential domination in civil-military relations. Appointing a civilian to the post of minister of defense became the most visible sign of establishing civilian control over the country's national security policy as well as a high degree of presidential influence over the institution. Although the Old Concept of National Security of the Russian Federation was replaced in 1993<sup>1</sup> (which was mainly based on the USSR's confrontation with the United States, and later with China). However, the framework of a new security system of Russian Federation is still undefined, and the process of military reform and redistribution of political and military influence is underway.

The concept of "national security"<sup>2</sup> as we consider today means the peaceful status which a nation enjoys that has a high degree of internal and external stability, allowing the normal development and pursuit of that country's goals, without threats to its sovereignty or institutions, or damages to persons and properties. The term "security" in its most general sense, is a multidimensional and multinational concept, that covers many areas of the political life of a state and the social life of a nation. National security is influencing and is simultaneously affected by the circumstances of surrounding states and populations. It is certain that the conventional view of security has been closely related to military matters, but it is now giving way to wider notions that cover also the non traditional risks, such as uncontrolled flows of refugees, trans-border activities of

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<sup>1</sup> Kartha. Tara., " *Asian Strategic Review: 1993-94, Russia's Military Doctrine*", Institute for Defense Studies and Analysis, New Delhi, August 1994, pp. 99- 156 .

<sup>2</sup> Uk Heo Jr & Karl DeRouen., " *Defense and Security: A Compendium of National Armed Forces and Security Policies*", Volume 2, ABC-CLIO, Inc, 2005, Santa Barbara, California, USA, pp. 665-682

organized crime, illegal traffic of arms, environmental damages, international terrorism, economic crisis, some forms of religious fundamentalism, proliferation of weapons of mass destruction (WMD), etc.

Towards the end of 1991 Russian thinking on national security policy was based on the following notions<sup>3</sup>. That the state has military, diplomatic, legal (both national and international), information, economic and other means at its disposal for achieving its objectives of National Security. These means were enlisted in the National Security Concept (NSC), which formed Russia's grand strategy on national security. Separate concepts and doctrines were derived within the framework of the NSC, which guaranteed the Russian security in different areas including the international, military, economic, social, environmental and information. Two of these doctrines were the Foreign Policy Concept, and the Military Doctrine. The differences between Russian security, foreign and military policies were the following. The security policy (NSC) was pointed at safeguarding national interests against external and internal threats. The foreign policy (Foreign Policy Concept, FPC) dealt with maintaining relations with actors in the international arena, such as states and international organizations. The military policy consisted of views and measures concerning war, conflicts, crises and their prevention, deterrence and suppression of aggression, force generation and preparation of armed forces, population and economy in securing vital interests of the state. Russia's security policy was defined as actions by organs of state power, (lower) government agencies, social and other organizations directed at safeguarding national interests against foreign and domestic threats. These actions consisted of predicting and identifying threats, determining tasks to secure national interests; improving forces, means and the system of guaranteeing national security, and finally, mobilizing resources and determining the order of using them. As mentioned earlier, the national security policy of the Russian Federation was laid down in the NSC.

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<sup>3</sup> Brezezinski. Zbigniew, " *The Premature Partnership*", *Foreign Affairs*, 1994, 73, Volume no. 2, pp. 67-82

The NSC is the basic document for formulating and accomplishing a clear-cut and comprehensive policy that determined and accordingly secures Russia's national interests. Initially, neither President Yeltsin nor his government had a clear view on the direction of Russia's security policy. Would the Russian Federation proceed as the unchallenged leader of the CIS or would it choose to take an independent course, with an exclusively Russian security policy and national armed forces? It was because of this lack of clarity and the atmosphere of indecision, no effort was made to develop a Security Concept (at national nor at CIS level), although such a concept was mentioned in a draft military doctrine for the CIS of February 1992<sup>4</sup>. The following month, however, on 5 March 1992, a decree 'On National Security' was issued, establishing the Security Council of the Russian Federation, an organ tasked to deal with problems of internal and external security. Since the first edition of the Military Doctrine, in May 1992, the Russian Federation has constantly described the NSC as the highest security document, from which military doctrine has been derived.

Understanding Russia's perceptions of East Asian security requires analysis not just of state policy, as during the Soviet period when the Kremlin alone defined foreign policy unconditionally, but also the positions of local authorities, political parties, and public opinion. This chapter reviews, the historical background of the security environment since (1991-2000), surrounding Russia, describes the evolution of the alliances system in which Russia now finds itself, and reviews Russia's regional military balance. Russia's relationships with its most significant counterparts- Japan and the United States-are then reviewed in turn. It is assumed that if Russia maintains broad and diversified relations with its neighbours in the East, it can bring stability and security to this region.

### **Soviet Military Bases and Facilities in the Pacific region**

The US-Japan Security treaty of 1951 and the US-South Korea Mutual defense treaty of 1953, forged at the height of the cold war, proved to have great influences on regional

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<sup>4</sup> Crow. Suzanne., " *Why has Russian Foreign Policy Changed?*", RFE/ RL, Research Report 3, 1994, no. 18, pp. 1-6

security of Asia-Pacific region under the US leadership. The primary targets of this network were the erstwhile USSR and the People's Republic of China. Although in the subsequent years Soviet-Japanese bilateral relations have improved but they have not been able to sort out their long-standing territorial dispute. And for this reason in the past on various occasions their bilateral relations represented a repetitive pattern of negotiations and consultations without any major breakthrough over the dispute of Kurile Islands<sup>5</sup>. The main problem for the Soviet Union in the Pacific region during the Cold War period was that it had only one warm-water port and even this had to be kept clear for surface ships by ice-breakers in winter. The port of Vladivostok, acted as a home to the Soviet Pacific fleet which comprised a total of over 800 ships, many of them grouped at Vladivostok simply because it was the only all-weather port on the eastern seaboard of the erstwhile Soviet Union. Vladivostok is located at the end of the trans-Siberian railway line, which passes through the ballistic missile sites of Chita, Olovyanaya, and Svobodny and the area army headquarters at Khabrovsk before reaching the Pacific<sup>6</sup>. Much further to the north, on the Kamchatka peninsula, is the submarine port of Petropavlovsk, now open for most of the year with the use of heavy icebreakers. Petropavlovsk acted as a ballistic missile base. There were reports of construction of new naval facilities, mostly for submarines, electronic surveillance and communications, in the Sea of Okhotsk at Magadan and Khabrovsk. On Sakhalin there were the two naval bases of Sovetskaya Gavan and Korasakóv and a major submarine base at Simushir in the disputed Kurils, to the immediate north of Hokkaido. This facility, together with ground and air facilities, represented a major stumbling block in settling the continuing dispute over ownership of these islands.

The Soviet military was opposed to the return of the disputed territory because of its strategic value. According to the Soviet Navy the Kuriles (including Etorofu and Kunashiri) constituted a protective shield for the Soviet Far East and provided the navy

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<sup>5</sup> Lunev. Stalinlav., " *Future Changes in Russian Military Policy*", Prism Volume 2, 1996, pp. 1-5

<sup>6</sup> Sesatnovich. Stephen., " *Rethinking Russia's National Interests*", Washington, DC: Centre for Strategic and International Studies, 1994, pp.98-101

with relative security and a convenient access for operations in the Pacific<sup>7</sup>. Russians had in the past negotiations and various summits opposed the Japanese demand for the entire Kuriles on the grounds that the Russian fleet could not pass the Shumshu strait if the islands were handed over to Japan. They proposed as an alternative that Japan might obtain the Kuriles south of Onkotan in demand to its return for giving up Sakhalin. On various occasions Russia made it clear that Etorofu and Kunashiri were small islands but important as a gateway to Kamchatka, and hence could not be abandoned. Although Kunashiri and Etorofu had no economic value but were militarily important for the Soviet Union, as they acted as the gateway to Kamchatka and constituted a Soviet defense line.

### **Security Dimension: The Russian Federation in Japan's Strategic Thinking**

What are the Japanese conceptions of their own interest's vis-à-vis the Russian Federation? What estimate of the Russian military threat does the Japanese make? These are some of the questions that are to be dealt with in this section. Ever since the end of Cold War era, Japan has perceived Russia to be a potential military threat to its national security. The dispute over Kurile Islands between the two countries has acted as a major obstacle in the improvement of friendly relations between the two countries. In contrast, Japanese claim to four islands called the "Northern Territories" has become an obsession in Russia whenever the relationship with Japan is mentioned. It is due to this dispute that both countries are hostile towards each other. Japan has never trusted Russia of being a friendly neighbour. If we follow the main developments since the initial Russo-Japanese contacts and look at their predominant pattern, the whole history of bilateral relations was mostly dominated by tension, mistrust, and confrontation. The hostility between the two countries was so high during the Cold War era that Japan regarded the erstwhile Soviet Union to be one of its major enemy states.

So far as her bilateral relations were concerned, Japan has always considered the northern territorial problem as the most important political issue of its foreign policy. Since the

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<sup>7</sup> Malozemoff. Andrew., " *Russian Far East Policy 1881-1904*", Berkley University of California Press, Reprint, New York: Octagon, 1977, p.98

emergence of the dispute, Japan has adhered to its demand of the return of the four islands, and to place Russo-Japanese relations on a treaty basis<sup>8</sup>. However, this reversion of the Kurile Islands requires a major improvement in overall relations between Russia and Japan. Although Moscow shares the desire for the complete normalization of its ties with Japan, so far nothing concrete has been achieved in this regard. Their relations have predominantly been dominated by economic terms and both Russia and Japan perceive each other as emerging trade and economic partners of the Asia Pacific region. On various accounts negotiations were carried out for the early settlement of the dispute but both sides lacked flexibility in their approaches towards each other. Japan adhered to its policy of “no separation of economics and politics”, while Russia argued that return of Kurile Islands was not practicable. For Russia Kurile Islands formed an integral part of its territory and any concessions on this would seriously threaten its territorial integrity. However, Japan perceived Russia of not being serious enough in dealing with the dispute. Thus both sides have remained far away from the early settlement of this issue.

Historically Japan has perceived Russia to be an enemy state rather than a friendly neighbour. During the mid-1980s, the most important development, which Japan had to take into consideration, was the Soviet military build-up in the Pacific region, though it was not specifically directed against the Japanese<sup>9</sup>. For the Russians, the Soviet build-up was more to do with their own strategic calculations prompted by the reasons that the Far Eastern military front was the weakest military link of the then Soviet Union. However, Japan could not ignore the Soviet military build-up, especially in view of its alliance with the United States. Serious developments in the Asia-Pacific region coupled with massive Soviet military build-up in the Far East paved the way for the conservative LDP political leadership of Japan to resort to flexible interpretation of its constitutional restrictions. In the Japanese view, the Soviet Union perceived Japan to be a major threat due to its

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<sup>8</sup> Donnelly, Christopher., “ *Red Banner: The Soviet Military System in Peace and War*”, Coulsden, Surrey: Janes Information Group, 1988, p.23

<sup>9</sup> Naidu, G.V.C, “ *Asian Strategic Review: 1996-97, Japan's Defense Policy*”, Institute for Defense Studies and Analysis, New Delhi, September 1997, pp. 342-357

alliance with the US and attached great strategic value to Japan during the Cold War period for the following reasons:

- a) Moscow believed that Japan could be used by a hostile power as a military base for offensive operations against the Soviet Union, especially in its Maritime Provinces and Eastern Siberia
- b) If controlled by a regime friendly to the Soviet Union, Japan would be an invaluable base for the Soviet operations in Asia and the Pacific region
- c) Geographically, Japan lied across the Soviet Union's eastern exit to the ocean, and
- d) The three straits of Tsushima, Tsugaru, and Soya constitute vital access routes for the Soviet Navy as Soya and Tsugaru which were the principal supply routes to Kamchatka and Chukot from the Maritime Provinces

The Japanese perceived that, from the Soviet perspective, it was desirable for Japan to remain military weak and unattached to either the United States or China, assuming that Soviet-Japanese defense cooperation is unattainable. In this regard the Soviet call for a collective security system was viewed by the Japanese as an attempt at facilitating the establishment of Soviet hegemony in Asia with the design of containing China. And for this reason the collective security mechanism was rejected by Japan. The Japanese perceived the Soviet military force stationed in the Far East as overwhelmingly superior to that of Japan, and capable of undertaking successful military operations against Japan. Further, the Japanese noted with concern the increasing level in the activities of the Soviet armed forces near Japan<sup>10</sup>. For example, the maneuvers of Soviet naval units took place not only in the areas of Okhotsk and Kamchatka, but also in the vicinity of Taiwan and the South China Sea as well. Soviet forces in the far east included Backfire Bombers with air-launched cruise missiles with nuclear warheads and Mig-23 Floggers-with nuclear capable-and intermediate Range Ballistic Missiles (IBMs), with a range of 5,000 kms.

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<sup>10</sup> Watanabe Koji, Gilbert Rozman & Mikhail. G. Nosov., “ *Russia and East Asia: The 21<sup>st</sup> Century Security Environment*”, M.E.Sharpe Publications, Armonk, New York, London, England, 1999, pp. 3-9



Soviet Union's Intercontinental Ballistic Missiles were also stationed in these Far Eastern regions. Further, the Soviet Pacific Fleet appeared to be the greatest immediate threat to Japan because of its potential ability to seriously interrupt Japan's trade with the United States, Europe and the Middle East. There were other Soviet military developments in the area, which encouraged those inclined to feel paranoid about the Soviet threat to gather support. Of these included the Far East troops of the former Soviet Union, and four military battalions stationed on the Kurile. In all, over 30 percent of Soviet forces were stationed in the eastern region<sup>11</sup>. Apart from the submarine base at Simshur on the Kuriles, there were a total of 14,000 Soviet troops from the naval infantry units stationed on the three main islands of Kunashiri, Etorofu and Shikotan. Together with them were 20 Mig-23 Floggers capable of attacking not just the northern island of Hokkaido but also the main island of Honshu, Japan. On Sakhalin Islands the Soviets had stationed two motorized rifle divisions, made up of 300 tanks and 250 armoured personnel carriers. It was from these Sakhalin Islands that Soviet Hind helicopters, radar installations and airfields, from which Mig-23s and Backfire bombers operated. At Khabrovsk, the Soviets had an air assault brigade of 2,000 troops.

In addition, the Soviet military forces were carrying out missile firings and bombing exercises in the Sea of Japan and in the waters near the Soviet Maritime Provinces, and extensive oceanographic research was conducted in the waters surrounding Japan. Other actions included: flights by Soviet aircrafts in the vicinity of Japan's air space to gather intelligence data about Japan's air defense system and the movements of its 7<sup>th</sup> fleet, which the Soviets claimed were routine exercises needed to protect the Soviet vessels. Soviet army maneuvers, including an amphibious landing at Sakhalin from Maritime Provinces through the Soya strait; and general "shows of strength", including the naval might of the Soviet navy, made Japan vulnerable to Soviet military strength during the Cold War.

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<sup>11</sup> Grechko. Aleksander, " *The Armed Forces of the Soviet Union*", Moscow Progress, 1991, p.121

Several external factors also conditioned Japan's appraisal of the level of Soviet threat:

- a) the severing of security ties with the United States or a significant estrangement of that country's relations with Japan
- b) a decisive shift, in favor of the Soviet Union of the nuclear balance between the United States and the U.S.S.R.
- c) radical or sudden improvement or deterioration of Sino-Soviet relations
- d) the development of major tensions between the United States and the Soviet Union or between the United States and China, either on a bilateral issue or on issue involving a third country

Apart from the facilities on the Kuriles which caused concern to the Japanese, one of the "latent threat" of the Soviet Union was seen in the large Soviet Pacific fleet stationed at Vladivostok, the stationing of SS-20s submarines based at Petropavlovsk, Svobodnyy, Chita and Olovyanaya, were capable of hitting Japan and the backfire bombers at Svobodnyy, were also capable of reaching Japan<sup>12</sup>.

### **Dimension of the Russian Military Threat**

At the end of 1991 Soviet Union broke up into 15 independent states, this posed a threat to Japanese security, as they felt that the dissolution of the Soviet Union could mean a less reliable system of controlling the utilization of the former Soviet-armed forces. Japan felt that due to the lack of any controlling system nuclear bombs stationed in the former Soviet federal states might fall into wrong hands hostile towards Japan. Regarding proliferation Japan was apprehensive that Russia might sell large parts of its increasingly expendable arms stockpile to Asian states intent on building up their military capability. However, Japanese perception of the Russian Republic can be characterized as one of the wary mistrust. Japanese analysts conceded that the direct military threat posed to Japan by Russian military forces is somewhat reduced with the end of Cold War, but remained suspicious of the substantial military arsenal still marshaled by Moscow in the Asia Pacific region adjacent to Japan. Japan considered Russia to be a "destabilizing factor"

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<sup>12</sup> Glantz, David. M., " *Soviet and Commonwealth Military Ministry Doctrine in Revolutionary times*", Ft. Leavenworth, KS: Foreign Military Office, 1992, p.14

for its regional security. While taking note that no Russian maneuvers of any significance have been observed near Japan in the last two years since 1991 and the numerical strength of Russian Far-East Forces been drastically downsized, the 1993 Defense White Paper of Japan raised its concerns towards the modernization of the Russian Far East Forces including the deployment of fourth generation fighters and the increase in helicopter-capable warships. Worries existed over the fact that the Russian Far East Forces have 33-army divisions with 290,000 personnel, 70 combatants and 1,430 combat aircraft carriers still stationed in these islands.

Four other issues recurred in Japanese discussions of the potential Russian threat to their security

- i) the reliability of command and control over the arsenals of the former Soviet Union
- ii) the problem of arms proliferation
- iii) the unresolved status of the Northern Territories
- iv) and the contemporary Asian strategy being pursued by the Russian government

The return of the southern Kurile Islands taken by Russia from Japan at the end of World War II, posed a continuing irritant in Russo-Japanese relations. When Boris Yeltsin planned his visit to Japan in the summer of 1992, he was considering offering at least the option of giving back the Kurile Islands in the future. But Yeltsin, faced severe criticisms on the issues of granting territorial concessions to Japan<sup>13</sup>. The Russian General Staff, the staff of the CIS armed forces, and the staff of the Russian navy all came to the same conclusion in their evaluations: they considered that the Kuriles Islands were of the highest strategic importance for Russia's security in its North Eastern frontier and therefore should not be transferred back to Japan. It was in the wake of these events, that Yeltsin had to postpone his trip to Tokyo. The collapse of an attempted diplomatic resolution of the issue and the abrupt cancellation of a long-planned trip to Tokyo by

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<sup>13</sup> Timmermann. Heinz., " *Russian Foreign Policy Under Yeltsin: Priority for Integration into the Community of Civilized States*", *Journal of Communist Studies*, Volume 8, 1992, pp. 163-185

Russian President Boris Yeltsin in September 1992, combined with Japanese doubts about the veracity of Russian pledges to reduce its forces deployed in the Northern territories further deepened Tokyo's mistrust of Moscow. Finally, Japanese policy makers shared a broad mistrust of President Yeltsin's overall strategy in Asia. Russian arms sales to China and overtures to South Korea all served to underscore the perception that the Russian side was intentionally trying to stress the fact to Japan that the improvement of Russo-Japanese relations is still lagging behind. Foreign Minister Ikeda Yukihiko met with his Russian counterpart in November 1996. However, no progress was made during their meeting on the Northern Territories dispute other than a reconfirmation of previously stated positions. Russia proposed the joint development of the four Northern islands, but Japan was noncommittal about the proposal.

Thus the end of Cold War has not translated a diminished Japanese perception that Russia is pursuing policies that are fundamentally unfriendly to Japanese interests. That, lingering animosity combined with Russia's still formidable capabilities in the Far East region still presents Japan with a continuing threat to its national security. For this reason Japanese Prime Minister insisted that the security role currently played in Asia by the United States is irreplaceable. Another reason that was a cause of concern for Japan was the uncertainty about the future role and involvement of the Americans in the Asia-Pacific region<sup>14</sup>. Further the Japanese felt vulnerable to Russian attack because: The United States obligation to defend Japan was legally restricted to areas under Japanese administration; in this scenario a possible sudden military strike from the Russian's against Japanese vessels could make Japan more vulnerable. Assuming the continued superiority of the U.S military in Asia, there was a Japanese apprehension about the US assistance. The Japanese felt that the contingent of U.S forces stationed in Japan, might be fully engaged elsewhere, making assistance difficult to Japanese in time. Under these conditions, the Security Treaty might not be effective, either as a deterrent or as a measure for countering actual attacks. Secondly, Lack of effective Japanese weapons systems, such as surface-to-surface and air-to-air missiles, and political and legal

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<sup>14</sup> Hoffman. Steven., " *Asian Security in the 21<sup>st</sup> Century: American Perspectives on Emerging World Powers*", Institute for Defense Studies and Strategic Analysis, New Delhi, October 1999, p.65

constraints impeded the effectiveness of the Japanese Self-Defense Force. It was for this reason that Japan's defense strategy presupposed the availability of U.S assistance. Notwithstanding close security and economic links with the US, Japan cannot take for granted the American military presence and security commitment as though it is going to last for ever.

### **Security Dimension: Japan in Russian's Strategic Thinking**

The Asia-Pacific region is a geographically and historically diverse region, and countries in this region have diverse outlooks on national security. The countries in the Asia-Pacific region have different outlooks on national security and are short of regional unity, for which the regional military situation is somewhat complicated. During the Cold War period, although East-West confrontation was evident but it did not turn into any military conflict. After the end of Cold War there appeared a change in the military situation of this region. In the wake of the end of Cold War and the collapse of the erstwhile Soviet Union, Russian military forces in the Far East, which had consistently build up their strength both in quality and quantity, have quantitatively been reduced. On the other hand, in this region, issues such as those of Japan's dispute over the Kurile Islands with Russian Federation, which are also referred as Northern territories, remains unsettled. In a world that continues to be in a state of transition even a decade after the end of the Col War, new challenges to national security have emerged. It is now easy to identify the nature and sources of threats to security. At one level, war have become less likely, while at another level, sub-conventional war and armed violence seems to be more prevalent. Retrenchment of military power and its professionalism / modernization are changing the parameters of employment of military power. The imperatives of strategic uncertainty and uncertain threats of the Russian Federation require defense planning to be oriented toward a capabilities-based planning rather than the earlier threat-based defense planning.

Although in subsequent years Russo-Japanese relations have improved and more Japanese investment in the Russian Far East has been made, relations are still marginal

by Japanese standards<sup>15</sup>. Gorbachev's April 1991 visit to Tokyo left both sides dissatisfied, with no solution to the territorial dispute in sight and only modest measures, including some economic assistance, as proof of progress in normalization. Japan, viewed Moscow as narrowly wedded to traditional notions of security. The insubstantial bilateral trade and investment, however, was not only the result of unresolved political issues such as the Kuriles but also reflected the clash of two very different business cultures. A peace treaty, which former Russian President Boris Yeltsin and Japan's former Prime Minister Ryutaro Hashimoto agreed to achieve by the year 2000 at the November 1997 Krasnoyarsk summit, seems very distant. Any treaty implying the loss or restriction of sovereignty over the Kurile Islands still has no chance of being ratified in the Russian Duma. Russian President Vladimir Putin made it clear during his first days in office in the year 2000, that he would not allow any fragmentation of Russia under his rule<sup>16</sup>. This announcement was directed not only against the separatist movements of Central Asia and the Caucasus but also territorial concessions demanded by the Japanese in the Far East.

From the Russian perspective two principal military threats that threatened its Far East: were the emergence of China as a military power, and the United States military presence in Asia. The US-Japan Security Treaty since the Cold War period has been a major Russian concern because the treaty provided the United States with military bases to be stationed in the Japanese territory for conducting surveillance of Russian and allied military activities, which could also be used for air and missile strikes. Furthermore, the US military bases stationed in Japan have been and could be again used for logistic support of US military operations in Asia<sup>17</sup>. Japan's revised security treaty with the United States and its guidelines for defense cooperation provoked criticism from the Russian side, as Moscow criticized Japanese intentions of getting involved in the Theatre

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<sup>15</sup> Rozman. Gilbert., " *Japan's Response to the Gorbachev Era, 1985-1991: A Rising Superpower Views a declining one*", Princeton University Press, Princeton, New Jersey, London, 1992, p.333

<sup>16</sup> Saikal. Amin & William Maley, " *From Soviet to Russian Foreign Policy*", In *Russia in Search of its Future*, Amin Saikal and William Marley, eds. Cambridge University Press, 2001, pp. 102-122

<sup>17</sup> Uk Heo Jr & Karl DeRouen., " *Defense and Security: A Compendium of National Armed Forces and Security Policies*", Volume 1, ABC-CLIO, Inc, 2005, Santa Barbara, California, USA, pp. 385-386

Missile Defense (TMD) directed against Russia. Despite those controversial issues, both sides seek to boost their economic ties for the development of the four Northern and Southern Kurile Islands. Though for Russia the degree of its concern over the US-Japan Security Treaty appears to have reduced, however, the Russians maintain their fundamental belief that the US-Japan Security Treaty forms a juridical foundation for close political, economic, and military alliance between Japan and the United States, and that it constitutes a potential military threat to Russian Far Eastern provinces.

Therefore a major Russian objective, as an intermediate goal, was to sever Japanese military ties with the United States, and if possible, to bring about a neutral Japan<sup>18</sup>. This position was indicated on various international summits including the former Soviet Union's policy towards Japan at the San Francisco Peace Conference and at the negotiations leading to the Joint Declaration of 1956. In recent years, to an increasing degree, the Russian's are viewing Japan as an autonomous power, potentially capable of threatening its interests both militarily and economically. Militarily due to Japan's increase in defense budget spending and acquiring of sophisticated defense equipments for its armed forces.

Historically, the erstwhile Soviet Union had always equated "security" with the absence of strong and hostile states at its borders. During all of the postwar period, the Soviet approach to security was based mainly on repulsing threats from the west and the east. In the East (as well as in the West), the main enemies were the United States and its allies. Later Japan was added to the list of potential threats to the erstwhile Soviet Union, due to its rivalry over the territorial dispute. During the Cold War period the Soviet Union maintained a stringent military buildup in its far east. During the Cold War period, the erstwhile Soviet Union attached great military-strategic significance to the Kurile island. The Soviet Union considered these islands very important for making the Sea of Okhotsk into a bastion for SSBN's (strategic nuclear-missile submarines) targeted at the United

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<sup>18</sup> Alexandrovna. Olga., "*Divergent Russian Foreign Policy Concepts*", *Aussenpolitik*, 4:363-372, 1993, p. 45

States<sup>19</sup>. Other islands enclosing the Kurile were a means of deployment zone for Russian strategic nuclear submarines. The strait of Proliv Ekateriny, separating Etorofu and Kunashiri, were particularly important for Soviet Union, as they were always free of ice by the month of April, making it vital access point for Soviet Union to reach the Sea of Okhotsk. However, after the end of Cold War, the military significance of the Kurile Islands was greatly devalued. During the Cold War period, the erstwhile Soviet Union viewed Japan (like the United States and China) as a security threat, due to it's hosting of U.S troops and its possible re-militarization. Moscow's threat perceptions from the Japanese side included the following threats. First, Japan became a part of military alliance with the United States hostile to the Soviets in 1951. Secondly it was believed that Japan could assume an important military role on behalf of South Korea. Two other aspects of Japan's military ascendancy disturbed the Soviet Union: Japan's technological and economic capabilities for the development of nuclear weapons, and the expansion of Japan's armament industry as a potential "arsenal for Asia".

Despite close military and economic ties with the US, Japan remained a minor partner in the American-led military alliance and Japan was hardly consulted in any major challenge in the policy directions of the US<sup>20</sup>. However, it was under the premiership of Nakasone Yasuhiro (who became the PM in 1982) that the Japanese defense planning underwent fundamental directional changes. Nakasone became prominent in Japan's defense policy mainly for three reasons:

During his tenure as Prime Minister

- i) The one percent self-proclaimed ceiling on defense spending was removed.
- ii) He redefined Japan's relation with the US, with the inclusion of the provision that Japan be allowed private participation in the American Strategic Defense Initiative (SDI) on purely defensive terms.
- iii) Increased the participation of the SDF in defensive as well as offensive role.

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<sup>19</sup> Bogaturov. Alexei. D, " *Russia in Northeast Asia*" Korea and World Affairs, 17:298-315, 1993, p.78

<sup>20</sup> Malhotra. Sanjana., " *Asian Strategic Review: 1993-94, Japanese Defense in the 1990s*", Institute for Defense Studies and Analysis, New Delhi, August 1994, pp. 306-321



Further in his statement on defense of the seas around Japan he pointed that:

- i) Japan should become like an “unsinkable aircraft carrier” defending against the Soviet backfire aircraft
- ii) Japan should exercise full control of the straits through Japanese islands to block passage of Soviet ships and submarines.

All these developments were a direct threat to the then erstwhile Soviet Union.

### **The Military Situation in Russian Far East**

Russia considers the reduction of its military capabilities in the Far East, to be unavoidable. Russia maintained that it cannot immediately resolve the sovereignty issue of Kurile Islands due to the political climate within the country and it stressed that an atmosphere needs to be crafted for solving the issue. The Japanese position was that creating a climate to support an agreement and resolving the issue are linked and should be pursued simultaneously. Japan was concerned that waiting for the creation of a supportive climate will leave the question of returning the islands unresolved. Other territorial disputes in the area surrounding Japan made it difficult for Japan to accept Russia’s proposal for Joint development of these islands. Sovereignty question over Takeshima Island with South Korea and over Senkaku (Diaoyu) Islands with China and Taiwan came to the fore, and the Japanese government feared that adopting a flexible approach on the Northern Islands would give a false impression of Japan’s position in the other disputes<sup>21</sup>. Japan itself was never considered by Moscow to be a direct security threat. The problem was that although the US-Japan security network did not directly threaten Russia, the US led network of alliances did not allow Russia much room to look after its interests in the conflict area vital to Russian security.

For Russia, the US military deployment in East Asia, together with the further weakening of Russia’s regional military positions, meant further reductions in its former superpower status and its regional influence. At the same time, for at least the foreseeable future,

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<sup>21</sup> Takuma. Yamamoto., “ *Asian Security: 1997-98*”, Brassey’s Inc, Herndon USA, 1997, pp.66-73

Russia lacks the economic capability to change this trend. Although the territorial dispute with Japan is very important for Russia from the political point of view, it does not undermine Russia's security in the traditional military meaning of the concept. The sane and sensible nature of Japanese policy is most likely to prevent its territorial dispute with Russia from taking the shape of a collision or a full-scale bilateral crisis. However, a deadlock on these issues has in the past produced negative effects on the economic interests of Russia. American intentions to deploy an advanced Theatre ballistic Missile Defense (TMD) system in East Asia was considered by many military analysts in Russia, to be a serious threat to the existing regional nuclear balance. Japan's revised security treaty with the United States and its guidelines for defense cooperation also provoked criticism from the Russian side, though the main criticism in Moscow was directed against the TMD plans of Japan. Japan is moving ahead to take an active part in the Theater Missile Defense (TMD) joint research project with the United States.

With the reduction in the Russian naval presence in Northeast Asia since the end of the Cold War there has been an effort by regional navies to enhance their military capabilities. Japan has continued to expand its already significant naval power and has acquired more powerful forces. Although the North Pacific region is now relatively free of conflicts, the potential for them is serious, given the geography of the region, so the importance of cooperative maritime security is apparent. Contrary to the global trend, Northeast Asian navies are experiencing steady growth and rapid modernization. The first of these is the widespread naval buildup and acquisition of advanced weapons. Northeast Asia has been arming faster than Southeast Asia and the Persian Gulf area, as evidenced by increasing defense budgets at a time when defense budgets are declining in most of the Third World. Japan's annual rate of defense budget has increased in comparison to its previous years defense spending, though it has slowed to around 3 percent, in its absolute terms was the biggest in the region<sup>22</sup>. From 1992 to 1996 Japan's defense budget increased by 25%. From 1988 to 1992, Japan spent \$9.2 billion on importing weapons, thus becoming the second-largest weapons importer in the world. The Japan Maritime

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<sup>22</sup> Masamichi. Inoki., " *Asian Security 1995-96*", Brassey's Publications, London, 1997, pp.134-137

Self-Defense Force (JMSDF) has acquired sixty-two destroyers (four of them Kongo-class Aegis ships) and frigates of between 1,290 and 7,250 tons standard displacement, fifteen diesel submarines, three hydrofoil fast attack missile craft, thirty-five mine warfare ships (minesweepers, a minelayer, and a tender), six landing ships including a new Osumi "mini-LHA," and four fleet supply ships. Japanese naval combat aircraft are organized into seventeen maritime patrol fixed-wing and antisubmarine (ASW) helicopter squadrons, with about a hundred Lockheed/Kawasaki P-3C Orions and an almost equal number of Mitsubishi HSS-2B and SH-60J helicopters, as well as a ten-plane MH-53E mine countermeasures squadron. JMSDF modernization is currently based on two basic defense-related documents—the new National Defense Program Outline, released in late 1995, and the Mid-Term Defense Buildup Plan of 1993. The Defense Buildup Plan Outline of 1993 sets forth Japanese security-related goals and guidelines for the next decade; the Buildup Plan lays down how the Outline is to be implemented and establishes the pace of military modernization by the year 2000. A third, and supporting, planning document of Japan is Japan's 1997 Defense White Paper, stressed for the building up of military high technology for its defense forces. The JMSDF's major vessel acquisition and procurement plans from 1 April 1997, based on the Defense White Paper, were for the acquisition of two 4,400-ton destroyers, one submarine, and one training and support ship<sup>23</sup>. The characteristics of Japanese military capabilities were evident in the modernization of its naval forces. Japan was reported to be planning to acquire four additional Aegis destroyers (at a billion dollars per ship) in the near future.

A long-range fleet of Aegis destroyers would allow Tokyo to envision building an aircraft carrier; the Aegis system was originally designed to protect carrier battle groups. The JMSDF has a highly modern, naval capability centered primarily on destroyers (although an Aegis destroyer is similar in size to a cruiser), frigates, and minesweepers. These forces, together with a modern diesel submarine fleet and a very modern if small group of amphibious landing ships, has provided Japan a strong capability for defending

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<sup>23</sup> Kim. Young C., *Japanese-Soviet Relations: Interaction of Politics, Economics and National Security*, Sage Publications, Beverly Hills/ London 1974, p.76

the sea lanes throughout the Northeast Asian area for which it is responsible under its security arrangements with the United States. Although the countries involved have generally managed to avoid direct conflict, territorial claims may well disturb the stability of the region; overlapping EEZ claims are particular flashpoints. Establishing clear and recognized maritime boundaries and sovereign jurisdictions will be difficult; until such settlements are finally reached, various cooperative efforts and confidence-building programs—predominantly of a maritime nature—could serve to lessen the likelihood of conflict and promote an atmosphere of trust and mutual respect necessary for lasting agreements.

In 1995 when Japan offered to provide Russia \$100 million for reconstruction of extensive damage that had occurred in the Northern Territories as a result of a devastating earthquake in early May, the Russian government immediately denied that it had any intension of returning the territories to Japan. A statement to this effect was made by Deputy Prime Minister Yuriy Yarov, who was then the chairman of the state committee responsible for disaster relief and earthquake. The same procedure was followed when Japan offered aid for the victims of a massive earthquake on Sakhalin islands in October 1995. Yeltsin quickly made some remarks to this effect that Russia did not need Japanese aid because Japan might use it to pressure Russia in an attempt to regain its lost territories. Although Russia is happy to accept Japanese economic aid, it had not ceased to be high-handed about the Northern Territories issue.

In March 1996, Foreign Minister Primakov told his Japanese counterpart that the number of Russian troops stationed in the Northern Territories was 3,500 and that efforts were continuing to disarm the islands. He also revealed that there were no Russian troops on Shikotan islands<sup>24</sup>. The organization of rapid response forces as the nucleus of the conventional forces is currently in planning. It is said that one of the four forces to be formed will be located in the Far East. While the Russian government stressed that the Pacific fleet has been reduced by half and its mission is primarily defensive, it is the

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<sup>24</sup> Pavliatenko. N. Viktor., “*Russian Security in the Pacific Asian Region*”, Armonk, New York, London, England, 1999, pp. 13-41

contrary posture that only two or three of the nine Delta III-type submarines which are the main component of Russia's SSBN capabilities, were to be stationed there till 2005. As regards the ground forces in the Far Eastern Military District, instead of four military headquarters, there is now only one, and the number of motorized rifle division was reduced from 16 divisions to 10 divisions in 1996. The number of machine guns and artillery divisions has also been cut off from five divisions to two. The surface-to-surface missile (SSM) brigades and the surface-to-air missile (SAM) brigades have been reduced and the present number are four SSM brigades and five SAM brigades. The neighboring TRANS-Baikal Military District has also faced reductions. Military headquarters have been reduced from three to two, while the number of tank divisions was reduced from four to three. Motorized rifle divisions were drastically reduced from 11 divisions in 1994 to 6 in 1995, and then to a single division in 1996.

This was confirmed during a meeting between Defense Agency Director Usui Hideo and Defense Minister Grachev on 29 April 1996. It was agreed during their meeting to expand exchanges between defense officials and to conduct exchanges between military units. In May 1997, Igor Rodinov became the first defense minister to visit Japan. Rodinov gave the Japanese Defense Agency Director Kyuma Akio a document on Russian defense policies and military constructions. The document stated that the strength of Russian Pacific Fleet has been reduced to 178,000 since 1992 and that the number of Russian military personnel presence on the Northern Islands had been reduced to 3,500 since 1995. Defense Minister Rodinov said that Russia did not have concerns about the US-Japan Defense Cooperation guidelines. Reductions in equipment, on the other hand, have been relatively minor. In the Far Eastern Military District, the number of tanks fell from 6,000 in 1995 to 5,600 in 1996, and the Scud surface-to-surface missile batteries were reduced from 60 to 48. The number of attack helicopters changed slightly from 200 to 190 helicopters.

In the Trans-Baikal, the number of artillery, multiple rocket launchers and mortars was reduced from 4,000 to 3,500 and Scud missiles from 24 batteries to 12. Between 1995 and 1996, strategic nuclear submarines (SSBN) were reduced from 18 to 14 submarines

(however nuclear attack submarines increased from 19 to 20)<sup>25</sup>. Conventional submarines were reduced from 15 to seven, and cruises from 9 to 4. The Air Force fleet was also cut, with tactical aircraft reduced from 170 to 141 aircraft and tactical helicopters reduced from 89 to 75. The increase, on the other hand, in the number of patrol and coastal vessels from 25 to 48 was an expression of Russia's Pacific Fleet's new emphasis on defending territorial waters. Russian forces in the Far East showed the tendency toward quantitative reduction and their activity has been slower. But modernization of arms is in progress and, coupled with the uncertainty of future construction of Russian forces, it still constitutes a destabilizing factor to regional security as perceived by Japan.

### **Russia's Security is mainly Domestic**

Russian Federation had its origin in the year 1991 with the decline and collapse of the erstwhile Soviet Union, and since then has pursued a general course toward parliamentary democracy and a market-driven economy. The transition from a controlled socialist economy to a market economy progressed steadily, at least as far as privatization was concerned. In addition, Russia was not yet free from a host of other problems. From 1991 to 1993 the Russian Federation suffered from various internal problems. These included large scale tax evasion, crime syndicates, virulent and widespread corruption, a large number of general and economic crimes, massive illegal outflows of foreign currency, huge deficits and cumulative foreign debts, long-overdue wage payments, corrupt dealings in the privatization process, shady relationships among big companies, politicians, and high-ranking government officials, a widening gap between the rich and the poor, and an increasing sense of social injustice and frustration among ordinary citizens. As a result, although 1990's, Russia suffered from economic stagnation and confusion and also from social disorder and lawlessness. The primary threats to Russia's security environment existed in Russia's extraordinary domestic political, economic, and social disorders and lawlessnessness. Moreover, these factors had become deeply rooted. As a result, Russia's international status was in sharp decline in 1990's. However, after

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<sup>25</sup> Masamichi. Inoki., " *Asian Security 1995-96*", Brassey's Publications, London, 1995, pp. 73-77

1992 the Russian Federation adopted several measures to tackle these problems. And to a large extent these problems have been tackled.

The military doctrine of 1993 asserted that Russia did not consider “any state as its enemy” and would not use its armed forces or other armed formations against any state for any purposes other than individual or collective self-defense in the case of an armed attack on the Russian Federation, its citizens, territory, armed forces, other Russian armed formations, or its allies<sup>26</sup>.

According to the 1993 military doctrine the potential sources of a military threat to Russia from outside included the following threats:

- Territorial claims against the Russian Federation from the other post-Soviet states. In this regard in an interview, in 1993, Defense Minister Grachev had identified that among the basic military dangers to the territorial integrity of the country included the territorial claims by other states on the Russian Federation.
- Existing and potential sources of local wars and armed conflicts, primarily those in direct proximity to the Russian borders
- Proliferation of nuclear and other weapons of mass destruction, the means of delivery, and modern military technologies
- The oppression of the rights, freedoms and legitimate interests of the citizens of the Russian Federation abroad
- The enlargement of military blocs and alliances (e.g. NATO) in such a way as to violate the military security interests of the Russian Federation.

According to the document, the greatest threat to Russia arose from armed conflicts caused by aggressive nationalism and religious intolerance. The main objective of the

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<sup>26</sup> Herspring, Dale. R., “ *The Russian Military: Three Years On*”, *Communist and Post-Communist Studies*, Volume 28, no. 2, 1998, pp. 163-182

organizational development of the Russian Federation armed forces and other troops was to create and develop forces capable of defending the independence, sovereignty, and territorial integrity of the country, the security of the citizens, and the other vitally important interests of society and state in line with the military-political and strategic situation in the world. In view of the absence of an agreed concept of the national security of Russia, it was unclear what the vital interests of the Russian Federation were?. Such statements in the military doctrine, therefore, remained open to interpretation.

In 1993, Russia's military doctrine had sorted out a view of the possible character of future conflicts. Under these possible characteristics of future conflicts outlined in the conditions in which the danger of global war (both nuclear and conventional) was reduced substantially though not eliminated completely, local wars and armed conflicts represented the main threat to stability and peace. Their probability in some regions was considered to be increasing. The doctrine went on to note that combat action in local war and the groups of forces deployed in the region of conflict in peacetime could wage armed conflicts. If necessary, these groups of forces could be reinforced by units re-deployed from other regions. The Russian Federation needed to maintain the combat potential of the groups of forces deployed in peacetime at a level sufficient to repulse aggression on a local (regional) scale. The term "aggression on a local (regional) scale," however, remained vague and open to a variety of interpretations. Local wars and armed conflicts were perceived as the most likely source of military threats to Russia.

### **The concept of National Security of the Russian Federation 1997**

In May 1997, the Security Council, which ranks above the Defense Council, approved a comprehensive document on national security policy entitled "National Security Concepts"<sup>27</sup>. The concept of National Security of the Russian Federation was approved by President Yeltsin in December 1997, which stated that "the threat of large-scale aggression against Russia in the foreseeable future is practically absent". The new

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<sup>27</sup> Dick, Charles, " *The Military Doctrine of the Russian Federation*", Janes's Intelligence Review, Volume 6, 1994, pp. 1-12



military doctrine states that Russian will not attempt to achieve a quantitative balance with the military forces of other major nations given the decline in Russia's fighting power that had resulted from inadequate spending. Under this new doctrine, a thorough reorganization of the armed forces was to be undertaken, until the basic recovery of the Russian economy makes possible a greater allocation of resources to the military. But at the same time, the world had become more unpredictable than it was during the Cold War period, and Russia had to conduct its policy from positions of relative weakness. Thus, if for the Soviet Union the nuclear balance was one of its instruments of security, at the end of 1990s for Russia, it had become the only one. The declared absence of threat is contradicted by a point from the same document, saying that the "most important task of the Armed forces of the Russian Federation is providing nuclear deterrence"<sup>28</sup>. This reflected the dichotomy between the residual superpower mentality of Russia's the then leadership and public opinion, and the realities of the country's economic possibilities and it's shrinking political and military influence.

The end of Cold war had drastically changed Russia's security situations in the Far East. Since the early 1990's a dynamic balance has replaced the polarization in international relations. Economic might rather than military power, and almost everywhere socialist ideology has been replaced by the principles of democracy and market economy. Russia's economic decline had caused major changes in its regional military balance. Russian forces were under construction and the future of the military buildup and military trends remained uncertain as these were inseparably linked to Russia's unstable economic situation. Russia's goals in East Asia had already become clear, but confusion reigned in choosing the means to realize them. The goal of economic-integration into the Asia-Pacific region has risen in prominence. Flawed economic policies stand in the way of Russian integration with the outside world. Of new significance is the goal of ensuring the territorial integrity of the Russian Far East and central control over it. Coupled with these goals is the objective of securing a peaceful international environment in order to

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<sup>28</sup> Handler. Joshua, " *The Future of Russia's Strategic Forces*", Janes Intelligence Review, Volume 7, 1995, pp. 162-165

refocus energies on domestic priorities: economic development, political stabilization, and raising morale in support of an emerging national identity. The process of substantial reduction of the Russian armed forces, which started at the time of perestroika, continues. Russian forces in the Far east ground forces consists of about 240,000 personnel, naval forces with total displacement of some 1,890,000 tons and air forces of approximately 1,220 combat aircraft. Although enormous military forces are stationed for deployment in the Far East, but their activities in the region had been slowing down as a whole and its readiness to respond is considered to have become lower than before. One of the reasons for this was largely because of Russia's severe economic decline.

Cold war confrontation has been replaced by formation of new political configurations. In East Asia, the direct threat of global war has disappeared with the demise of the USSR. As a result, Russia's security environment in the Far East has improved to the point where the threat of direct, all-round assault can be disregarded for the foreseeable future. In terms of stability, the present situation looks relatively favorable for Russia<sup>29</sup>. The country does not feel any direct security threats in the Far East, with the exceptions of the long-lasting potential conflict on the Korean peninsula, which is more of a political than a security threat to Russia. However, Russia has to operate in the Far East in a completely new political and economic environment.

Despite drastic reductions, Russia's defense capability in the Far East is still formidable in weapons and equipment quality, logistics, and C3I (command, control, communication, and intelligence): and adequate to the greatly reduced military threat. Russia still enjoys overwhelming numerical military superiority over other regional powers. However, economic and social difficulties in the Far East are having a negative impact on the armed forces deployed in the region. Russia still maintains the second largest army in the world (after China), and keeps appropriate numerical parity in conventional and nuclear weapons with the United States, but its budget is inadequate for maintaining such forces. The ratio of Russia's gross domestic product (GDP) to the

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<sup>29</sup> Jones. Ellen & James. H. Brusstar., " *Moscow's Emerging Security Decision making System: The Role of the Security Council*", *Journal of Slavik Military Studies*, Volume 6, 1993, pp. 175-193

number of its soldiers is 15 to 20 times lower than that of the United States or other developing countries, and the Russian armed forces can procure no new military equipment. The result is a drastic decline in combat readiness. In the Far East, all these problems are multiplied by the gravity of the regional economic collapse and the region's over-saturation with military facilities. The logic and reality of economic development in Russia demand further reductions of its armed forces in the Far East and enhancement of the combat potential of its remaining armed forces.

Although territorial disputes are rich in symbolism and have some bearings on Russian security, other problems have more threatening consequences. Having no recourse but to allow eastern Siberia and the Russian Far East to slip out of its tight control, Moscow faces new threats, largely internal in origin, that pose special challenges in dealings with East Asian states. Corruption, criminality, and border controls that reduce the inflow of much that is needed, while allowing the irregular entry and exit of much that should be regulated, present a danger second only to economic stagnation. Indeed, such new threats are the indirect cause of much of Russia's economic insecurity and must be addressed if it is to achieve all-round security. Russian military policy in the Far East should be defined according to Russia's national interests, the existing threats and Russia's economic capabilities<sup>30</sup>. Even if Russia were involved in serious hostilities in the Far East, the possibility of a large-scale military conflict seems rather low. And if such a situation does arise, the only way to resolve the crisis would be nuclear deterrence or relocation of combat-ready mobile forces from other parts of Russia. A major challenge for Russian policy is to navigate between these extremes on the basis of accurate understanding of the emerging balance of power in the region and of its genuine economic opportunities. It is for this reason that Russia must first and foremost address the dangers that arise from its poor economic security situations. Russia's highest priority must therefore be, to put its economy on track to develop quickly as part of the regional and global economy.

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<sup>30</sup> Kasaktin. Anatoliy., " *Priorities and Other Components of Foreign Policy*", International Affairs, Volume 12, 1994, pp. 79-86

## **Chapter 4**

### **Conclusion**

## CONCLUSION

World politics may have changed profoundly in recent years, but the relationship between Japan and Russia has not. This study on the dispute over Kurile Islands between Russia and Japan highlights how the dispute of Kurile Islands has affected the bilateral relations between these two countries. The Territorial dispute issue over the Kurile Islands between Japan and erstwhile U.S.S.R (Russia) evolved as a byproduct of the Cold War. Even after the end of Cold War, the dissolution of the erstwhile Soviet Union, and the collapse of the Liberal Democratic Party (LDP) dominance of Japan, this issue of territorial dispute over Kurile Islands between Russia and Japan still exists. No peace treaty has been signed between these two countries regarding the settlement of ownership of Kurile Islands. Despite glimmers of hope the two countries remain deeply suspicious of one another. Their territorial dispute over the Kurile Islands remains unresolved. While changes have occurred, they have been marginal, manifested more in expectations than in reality. Given the transformations that have taken place in domestic politics in Tokyo and Moscow, changes in relations between the two seem remarkably small.

The dispute over the ownership of Kurile Islands between Russia and Japan has constituted a major stumbling block in the bilateral relation between the two countries. And this has further hampered and obstructed to achieve fully normalized and full-fledged relations between the two countries. During the Cold war period the Kurile Islands issue acted as the most contentious issue between the then Soviet Union and Japan. The nature of this dispute has undergone drastic change after the end of cold war period. During the Cold War period both, the erstwhile Soviet Union and Japan perceived each other to be enemy states rather than friendly neighbors. During this period political relations were affected to the maximum extent, and bilateral trade between the two countries remained on a minimum level. However, after the end of Cold War both Russia and Japan have moved forward in improving their bilateral trade relations even though they still have differences on the Kurile Island issue.

The study reveals the fact that from 1991 till 1993 there was no major improvement in the bilateral relations between Russia and Japan. And no major breakthrough was achieved in regard to the dispute over Kurile Islands between the two countries. Both Russia and Japan conducted various summits and negotiations during this period, however, all these attempts to normalize the bilateral political relations proved futile. It was because of the dominance of the liberal Democratic Party's (LDP) in the politics of Japan, which maintained a hostile attitude towards Russia. The Liberal Democratic Party (LDP), controlled political power in Japan till 1993 when it collapsed. The LDP controlled the foreign ministry department of Japan called as "Gaimusho" till 1993. Even after its collapse it continued to make decisions in regard to Japan's foreign policy. And because of LDP's dominance, Japan maintained a non-compromising attitude towards Russia.

Tokyo has long demanded the return of these islands, which Soviet troops occupied immediately after the end of World War II, Moscow has flatly rejected such a request. Although political and economic relations have improved over the past years, no concrete measure in this regard was initiated from either side to resolve this issue. Both Russia and Japan have exhibited a repetitive pattern of consultations and negotiations over this issue. Since the origin of the dispute except on few occasions both sides have; neither intended nor initiated any effective dispute resolution mechanism to this effect to solve this dispute. One of the various reasons that can be identified for the non-conclusion of any peace treaty between Russia and Japan was, their lack of political will and their uncompromising attitude towards each other. During the Cold War period both Russia and Japan attached great significance to the Kurile Islands. Both Russia and Japan regarded Kurile Islands to be an integral part of their territory. For the erstwhile Soviet Union these islands during the Cold War era acted as protective shield for the Soviet Far East region and provided the navy with relative security and a convenient access for carrying out military and civilian operations in the Pacific region. The Soviets claimed that their naval fleets could not pass the Shumshu strait if the islands were handed over to Japan. The Soviets realized that though Etorofu and Kunashiri are geographically small islands but were important as a gateway to Kamchatka, and hence could not be

abandoned. Although Kunashiri and Etorofu had no economic value but were militarily important for the Soviet Union, as they acted as the gateway to Kamchatka and constituted a Soviet defense line. It was during the tenure of Joseph Stalin the former President of the erstwhile U.S.S.R that militarization of these islands began. Moscow stationed nearly thirty percent of its troops in these islands to keep an eye on the growing American presence in the Asia-Pacific region. This situation continued till the end of the cold war. Japan felt militarily vulnerable to this military build up of the Soviet Union on these islands and Japan in a way to counter this growing Soviet threat in its territorial waters signed the military treaty with U.S in 1951. This development further aggravated the hostile relation between Tokyo and Moscow. Both started perceiving each other as enemy states than mere neighbours. MacIver had propounded that any nation controlling this region would control the world. It was because of this control in the Asia-Pacific region that the Soviets had controlled and dominated as a superpower at par with US<sup>1</sup>. It was because of this reason that neither side was eager to part its claims from these islands. Japanese perceive that the “Northern territories” are the integral part of Japan and were originally belonged to it. Long before the Soviet occupation on these islands these territories were a part of the Republic of Japan. However, according to historians, the truth is that these islands neither belonged Japan nor to Russia. These islands were earlier being inhabited by the indigenous tribes called the “Ainu”. It was after the Second World War that the allied nations granted these islands to Soviet occupation for its participation in the War against the then imperial Japan.

Japan perceived that the Soviet Union had gained control over these islands treacherously from it in 1945 during the Yalta agreement, and considered its control over Kurile Islands as illegal from the point of any international norms. During the Yalta meeting the Soviets gained control over these islands as a reward for its participation in the war against Japan. However, to some extent this hostile situation was somewhat reduced, although marginally under the leadership of Mikhail Gorbachev. The former President of erstwhile U.S.S.R, Mikhail Gorbachev during his tenure initiated several measures in this direction to resolve this long-standing dispute between the two countries. He visited Japan from 16

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<sup>1</sup> Robert M. MacIver, “The Mordern State”, London, Oxford University Press, 1926, p 42

to 19 April 1991. He was seriously intending to return these islands to Japan, and change the hostile relation with Japan. However, he was not successful in his efforts towards achieving this end. He was politically opposed not only from within his political party, but also from outside his political party. He was not able to transform his policies of perestroika and glasnost in bringing out any solution to this problem. His intentions of building Asia-Pacific region into a friendlier environment based on mutual trust and cooperation was never achieved. He formulated the policies of Glasnost and Perestroika and adopted a special attitude towards the Asia-Pacific region. During his tenure military build-up in these islands was reduced quantitatively and qualitatively. Although Gorbachev's policy of reduction of troops stationed in these islands, on one side, was linked to be his policies to establish a peaceful Asia-Pacific region. On the other hand the other reason provided for Moscow's policy of reduction of its troops was its economic conditions that had begun to haunt Moscow by the end of 1991. It was the economic situation that compelled Moscow under the leadership of Gorbachev to pull out its military forces stationed over these islands. Another reason as to why Moscow started reducing its forces from these islands can be said to be its military superiority which allowed Moscow to station more troops of conventional type to be stationed on these islands.

After the dissolution of the erstwhile Soviet Union, the Russian Federation declared itself to be the successor state of the erstwhile Soviet Union. President Boris Yelstin who succeeded the former President Mikhail Gorbachev in 1991 adopted a policy of status quo towards the Kurile Islands issue<sup>2</sup>. Russia considered that returning of these islands would seriously threaten its national integrity and seriously affect its status at the international level. For Russia, Kurile Islands were an integral part of its territory and any concessions granted on it to Japan, would inevitably open up a Pandora's box for other federations of the Russian federation to demand their territories.

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<sup>2</sup> Jain. R. K., "The USSR & Japan 1945-1980", *Humanities Press*, Atlantic, Highlands 3, N.J, 1981, Radiant Publishers, New Delhi. P- 28



During Gorbachev's tenure Yelstin was the one who led the main opposition front against the return of these islands to Japan. After assuming power he was in a dilemma. Whether to stay in favor of return of these islands or to go against this policy. For this reason, he adopted the middle path in order to stay secured from political opposition. For this reason he maintained equidistant from Japan on the issue of return of these islands. Whenever, the Japanese pressed for the return of these islands Moscow either abrogated its summit meetings in between or diverted the direction of the meetings diplomatically. Although like Gorbachev, Yelstin too was inclined to the return these islands to Japan but was unable to realize it as he lacked political support on the issue .

Economically, the dispute of Kurile Islands had affected the bilateral relations between Moscow and Tokyo. On various occasions economic assistance promised from the Japanese side was threatened to be withdrawn if the Islands were not returned to Japan. From 1993 to 1995 Japan adopted the policy of "no separation of economic and politics"<sup>3</sup> policy towards Russia. Japan adhered to its claim on these islands and urged Russia to return these islands at the earliest. The Japanese foreign ministry department "Gaimusho" adhered to this policy and it was because of this errant attitude from the Japanese side that Yelstin had to postpone his visit to Tokyo in 1993. However, despite political differences over this dispute economic relations were maintained between Russia and Japan. Japan was severely criticized for its adherence of "no separation of economic and politics" policy directed towards Moscow. Gaimusho's policy of "no separation of economic and politics" towards Moscow was a well-knitted diplomatic move carried out by Tokyo. Tokyo perceived that if it adheres to its policy of return of the entire four islands, it would definitely compel Moscow to at least grant some islands instead of all the four islands. And once it achieves that objective, it will further compel Moscow to return more islands. However, this diplomatic strategy was put to an abrupt end before its realization in 1995, when due to the pressure from all the developed countries including the U.S, Japan had to give away its policy of "no separation of economic and politics" policy towards Moscow.

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<sup>3</sup> Slavinsky. Boris, "Russia and Japan: From neutrality to war and from war to peace". (*Social Sciences*, 1995).

President Yelstin visited Japan in October 1993. The informal Russo-Japanese summits were held on November 1-2, 1997, at Krasnoyarsk. This summit turned out to be an epoch-making event in bilateral relations between Japan and Russia. On that occasion, an important agreement was reached by the then former Japanese Prime Minister Ryutaro Hashimoto and the then Russian President Boris Yelstin. The agreement proposed to make maximum efforts to conclude a peace treaty by the year 2000. The second informal the so called "no-necktie" summit meeting between Hashimoto and Yelstin was held at Kawana on April 18-19, 1998. The Kawana summit also proved to be an important event in the bilateral relations between Russia and Japan. Both leaders confirmed their previous agreement that Japan and Russia would do their utmost to conclude a peace treaty by the year 2000, based on the 1993 Tokyo declaration. This time Hashimoto not only repeated the pledge, but also added that the Japanese-Russian peace treaty would settle the ownership of the four islands, based on the second clause of the Tokyo declaration. Yelstin's new proposal for joint economic development, related to the disputed sovereignty issue, also received de facto acceptance from Hashimoto, on the condition that Japan would consider the economic proposals "in parallel" with negotiations on the peace treaty. Yelstin also obtained Hashimoto's assurance of more than \$600 million in commercial loans to Russia in 1998 as part of a plan to lend \$1.5 billion in united credits during 1998-99.

On November 12, 1998, an official summit was held between Russian President Boris Yelstin and Japanese Prime Minister Keizo Obuchi, Hashimoto's successor. Officially Obuchi was the first prime minister to visit Moscow. Both leaders signed a document entitled "The Moscow declaration to build a Creative Partnership Between Japan and Russia", which officially reaffirmed the informal agreements reached by Yelstin and Hashimoto at Krasnoyarsk (1997) and Kawana (1993). Tokyo viewed the Moscow summit, and particularly the signing of the Moscow Declaration, as important steps forward for Japan. After the Kawana meeting, Hashimoto was forced to resign, from the Japanese Premiership due to his party's defeat in the election. The pledges both Yelstin and Hashimoto had made during the Krasnoyarsk and Kawana summit were simply oral

agreements, with no written commitment or legal validity. Thus Tokyo considered it crucial to transform the friendly relations cultivated on a man-to-man basis between the Russian President and the Japanese Prime Minister into positive relations on a state-to-state basis.

The Moscow summit did not however, produced any diplomatic breakthrough: Russia and Japan clearly still had a long way to go before reaching a possible settlement of the territorial dispute. The Moscow declaration was a product of compromise between the Japanese request for reversion of the islands and the Russian demand for economic cooperation with Japan. The declaration equally reconfirmed two pledges previously made by Hashimoto and Yelstin: their resolution to strive for a peace treaty by 2000, and the approval of the Hashimoto-Yelstin economic cooperation plan of 1993. It also included an agreement to create two new sub-committees, one to draw a border demarcation line around the four disputed islands and the other to study the possibility of joint economic activities on the islands.

The question of how to reconcile the two countries conflicting positions was however not resolved. In a press conference in Moscow Obuchi reiterated the Japanese government position that the efforts to solve the territorial disputes and the development of economic cooperation should be advanced “in parallel, as if they were both wheels of a vehicle”<sup>4</sup>. On the Japanese side, there existed a strong apprehension that the Russians were only interested in obtaining economic assistance, while intending to shelve any solution to the territorial question and defer it to the future. President Yelstin’s reply to Obuchi, regarding Hashimoto’s secret proposal at Kawana in April 1993, corroborated this Japanese concern. The former Japanese Prime Minister’s proposal reportedly called for drawing a Japanese-Russian demarcation line immediately north of Etorofu, the northernmost of the disputed islands, while allowing Moscow to maintain transitional administration rights over them. In a written three-page reply, Yelstin offered a counterproposal stating that a separate general treaty should draw the border between these two nations, and not by a treaty of peace, friendship, and cooperation. Moscow’s

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<sup>4</sup> Takashi. Inoguchi, “Japanese Foreign Policy” ( *Palgrave Publications*, USA, 2000) P-26

reply to Hashimoto's proposal runs squarely counter to the Japanese understanding, arising from Hashimoto's talks with Yelstin at Krasnoyarsk and Kawana, that a peace, friendship, and cooperation treaty should incorporate the resolution of the territorial dispute. In the past, the erstwhile Soviet Union under the Leonid Brezhnev and Andrei Gromyko diplomatic team attempted to circumvent a peace treaty containing a border demarcation clause by persuading Japan to sign a treaty of good-neighborliness and cooperation with the USSR. The Yelstin proposal at the Moscow summit in 1998 greatly disappointed the Japanese, as it demonstrated that the tactics employed by the Yelstin-Primakov team had not changed since the days of the Soviet Union.

Both Russia and Japan realize that this thorny issue of Kurile Islands is such an issue that cannot be solved within a short period of time. And both Moscow and Tokyo have realized that though this dispute is a political problem, economic relations should not be hampered to the least possible extent. It was because of this reason that both Russia and Japan continue to maintain a healthy bilateral economic relation despite the lingering thorny issue of Kurile Islands. Moscow's approach towards Japan has been to maintain and improve both political and economic relations with Japan so that economic assistance from the Japanese side remains unaffected. In this scenario it is a zero-sum situation for Moscow where it has not only been able to put away the issue of return of these islands, but has diplomatically been able to get on-time economic assistance from Japan.

However, Moscow has pursued its policy of improving its relation with Japan. It was in this regard Moscow has been able to bring down the level of hostile attitude of Japan towards Moscow. As an approach of Confidence-building measures directed towards Japan, Moscow has granted permission for Japanese citizens to visit these islands without visa requirements. To bring down the level of hostile attitude of Japan, Moscow has proposed to Tokyo for the Joint development of these islands. And it depends on the political will and seriousness on the part of these two countries that improvement in the bilateral relations can be realized. Though the strategic importance of these Kurile Islands after the end of Cold war have drastically been reduced, but the dispute over Kurile islands have remained as the most conflicting issue between Russia and Japan which still

needs to be resolved. In November 1997 at Krasnoyarsk, both Moscow and Tokyo moved forward to resolve the long-standing territorial dispute between them. Both committed themselves to a concerted effort to improve ties and to negotiate the territorial conflict and economic cooperation simultaneously. But the sharp contrasts in the two countries' expectations did not bode well for signing a peace treaty in the year 2000 or for its normalization. After an impasse was reached at the November 1998 Moscow summit, there were signs that excessive expectations were turning into disillusionment. Finally to conclude it can be said that though the dispute of Kurile Islands has affected the bilateral relations between Russia and Japan to a great extent. Moscow's approach to the region and to Japan has gradually changed its nature from ideologically colored or politically motivated to more pragmatic and economically inspired policy.

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