

## **KEYNOTE ADDRESS**

### **JAPAN'S POLICY TOWARD RUSSIA**

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#### **Background**

Japan's relationship with Russia has not necessarily been characterized as normal. And it has traditionally been handicapped by two major factors, the euro-centrism of Russia and Japan's mistrust of Russia with the Northern Territories issue, as the core of the problem.

Russia has always desired to be recognized as part of Europe and the European civilization since the days of Czarist Russia. Newly elected President Putin was quoted as saying to U.S. Secretary of State Madeleine Albright, "I like Chinese cuisine and I know how to use chopsticks, but I am European." This episode suggests how the Russian elite look at their own culture. Former Foreign Minister Andrei Kozyrev was a devoted euro-centrist and his focus was clearly Russia-US relations.

Even during the Soviet years, Kremlin leaders always coveted the super-power status in the context of European civilization to be equal to the U.S. When *perestroika* began and at the wake of Russia's re-birth, the primary objective of Gorbachev and Yeltsin was to identify a proper place for Russians in such context. Contrary to their wishes, the expansion of NATO into Czech, Slovakia, and Hungary in the late 1990s psychologically shattered the Russian desire to identify themselves with Europe. This accelerated their reevaluation of the Asia-Pacific region. The increasing profile of China also played an important role to reassess Russian relations with China. Concurrently Russia started to pay more attention to Japan.

On top of this euro-centrism, Russians have a very traditional yardstick to gauge national powers of the world. Their respect for large territory, large military, and rich natural resources made them blind to nations, such as Japan, which do not measure up along any of these dimensions.

And yet, the enormous economic and technological strides Japan had made in the 1970s and 80s awoke reformers of Russia, in a sort of "Japan shock," and made them recognize that a nation without large military power or territory could gain international respect and status. The increasing Chinese strength based upon its economic growth also helped them to understand this reality in the world.

Unfortunately, however, the new awareness of Japan came at a time when both Gorbachev and Yeltsin were searching desperately for Russia's place in Europe; and thus such awareness did not take shape in the foreign policy of that agonizing country. The other day I saw Professor Condoleezza Rice, who was in the National Security Council during the Bush Administration. I asked her if in her view there could have been a window of opportunity for Japan to settle the Northern territorial issue with either Gorbachev or Yeltsin. She said that Gorbachev was struggling with the conservatives with a view to maintaining *perestroika* and Yeltsin had to devote full energy to fight against nationalists and conservatives at home. So either of them had few, if any, windows of opportunity to take a bold initiative on such sensitive sovereignty issue as the Northern territories. And I agree with her. The bus for improved relations had already left when Japan reached its economic summit.

The second characteristic of Japan's bilateral ties with Russia is the mistrust Japan has held towards Russia. Among the major power relations in the Asia-Pacific region, only Russo-Japanese relations have failed to enjoy mutual trust and remain rather tenuous. This state of affairs is certainly not conducive to the stability of the region. Such mistrust was rooted in the 19<sup>th</sup> century when the paths of the two nations began to cross each other and eventually collided, Russia expanding eastward in search of a warm-water port on the Pacific coast and Japan expanding northwestward, looking for a buffer zone and a pioneer land.

At the end of World War II, the Soviet forces breached the neutrality treaty and attacked Japan, occupying the Northern Territories. Tens of thousands of Japanese were imprisoned and detained in Siberia. In the post-war period, hundreds of Japanese fishing vessels were captured and detained by the Soviets. During the Cold War, the military threat posed by the Soviet Far East was overwhelming, compelling Japan to strengthen its ties with the United States. These problems were not helpful for fostering mutual understandings.

Gorbachev began *perestroika*. The new thinking evidently helped boost the international image of the Soviet Union. There has been a remarkable improvement of Russia's image among the Japanese people. Yet, Russia remains a remote place for most of Japanese. Very few of them had contacts with Russia, even with the Far Eastern part of it. After all there is a population of only 8 million in the huge expanse of the Russian Far East. The Japanese city of Yokosuka has about the same size population. Furthermore, the people of the Russian Far East, mostly Caucasians, are looking westward toward Europe.

### **Japan's Policy toward Russia**

Against the above backdrop, I will talk about Japan's current policy towards Russia.

Currently, Japan's relationship with Russia is predicated upon a multi-layered approach, not holding the overall improvement of the bilateral ties as hostage to the unresolved territorial issue, and yet encouraging Russian understanding that progress on this issue would no doubt bring about large economic gains to Russia.

This approach was clearly enunciated by Prime Minister Ryutaro Hashimoto in 1997, when he highlighted three essential principles for the relationship: trust, mutual benefit, and long-term perspective. In the preceding years there had been an obvious link between the territorial issue and economic assistance in such a way that the absence of progress on the territorial issue meant no Japanese economic assistance for Russia. Prime Minister Hashimoto reversed this causal relationship and stated that any progress in the former area would bring about substantial economic assistance. This was a clear signal to Russia and led to the epoch-making Krasnoyarsk meeting between President Yeltsin and Prime Minister Hashimoto. The joint communiqué that came out of the meeting stated that the two countries should make all efforts to conclude a peace treaty by the year 2000 based on the 1993 Tokyo Declaration, in which both countries agreed to resolve the territorial issue based on law and justice.

How are we going to achieve this objective? No territorial issue in the world is easy to resolve. This could be one of the reasons why, in the history of mankind, we have had numerous wars to settle territorial ambitions and grudges. In relations between democratic governments in the 21<sup>st</sup> century, each needs to understand the whole dynamics of the political, economic, social, and cultural decision making systems of the other, and carefully and meticulously orchestrate a range of actions and measures. If we are really serious about making headway on the territorial issue, there are certain conditions for political decision making that need to be met.

We believe first that the leadership should be strong and that the power base of a leader or leaders should be consolidated in terms of domestic politics. In this sense Japan welcomes the overwhelming support President Putin garnered in the last presidential election. President Yeltsin was to remain in office until this summer without a clear picture of what was to follow after he left office. His decision were always clouded with uncertainties of his future. In contrast, President Putin is to stay in power for at least another four years, and possibly eight.

Secondly, we should encourage President Putin to place priority on Japan in its dealings with foreign countries. Japan has dealt with President Yeltsin for almost a decade on the territorial issue. During this period, he conveyed to the Japanese a certain zeal of his own to find a solution to this intractable territorial equation. But he exhausted his energy and his physical health deteriorated. President Putin is young. Even after two terms he will be only 56. Japan wants to see President Putin develop his understanding of Japan. At the end of this month (April), newly elected Prime Minister Mori will fly to St. Petersburg to have his first encounter with President Putin. In July President Putin will participate in the G8 Economic Summit meeting in Okinawa, Japan. But the real gambit will come after the Summit meeting since President Putin's foreign policy would be gradually formulated over the time span of one year rather than a few months. If there is an indication of a future direction for the bilateral relations within this year, with some clues as to the territorial problem, the Krasnoyarsk agreement could be carried out.

Thirdly, Japan's presence in Russia should be enhanced through many contacts so that the Russian people, particularly those in the Far East, would recognize that if Russia could solve the territorial issue and normalize its relations with Japan, further contacts would bring substantial benefits to them. The recent indication of a subtle shift of focus by Russia to the Asia-Pacific region could be motivated by the push from the NATO expansion and by the strategic need to deal with the Chinese. Neither motivation would have little to do with Japan's and its relations with Russia. President Putin's awareness of being European is a case in point. What is needed is an increased Russian attention to Japan.

What would be Japan's leverage towards Russia? Japan faces a dilemma. In view of Russian traditional thinking, Japan's potential to become a normal power possessed with military might would not work as leverage against Russia unless and until Japan decided to become such a power. And Japan would not choose to become a military power. It is first and foremost its economic power that Japan may use as leverage. It is ironic that Japan's economy, when the nation most needs it, is now in somewhat of a downturn. However, as its economic activities augment, Japan will increase in importance for Russia and vice versa.

The leading sector that would benefit both countries would be the energy sector in the Far East. The development of oil in Sakhalin and natural gas in eastern Siberia, involving not only Japan but also China, Mongolia, and Korea, represents new undertakings whose future could determine the way those countries engage in this region. Energy is a strategic commodity through which countries concerned would increase interdependence. Japan provided a US\$116 million EXIM Bank loan to the Sakhalin II project. The first shipment of crude oil to Korea began in September 1999.

Also important is investment. Trade is one thing but investment brings two economies much closer because it involves more people and more time. In spite of geographic proximity, Japan's investment in Russia accounted for only 1.2 percent of foreign investment in Russia in 1997, placing Japan in ninth place among the major countries investing in Russia. And Russia represents only 0.04 percent of all Japanese investment overseas. (Japan's trade with Russia

accounts for 0.7 percent of its global trade while Japan represents only 3 percent of Russia's international trade, making Japan the 11<sup>th</sup> trade partner of Russia. In the Far East, Japan accounts for 22.3 of the region's trade and it is the most important trade partner.)

There are many reasons why Japan's investment in Russia is far behind others. First, the investment climate in Russia remains unstable and unpredictable, with frequent changes in rules and regulations, discrepancy among legislation including the legislation on production sharing, non-transparent application of regulations, and high and complex taxation. Second, Russian administration demands complex procedures, produces delays, and demonstrates vague demarcation between state (federation) and local authorities. Third, country risk factors are high. Fourth, visa procedures are very cumbersome.

It is in this context that the Hashimoto-Yeltsin Plan was agreed to in 1997 at Krasnoyarsk. This plan is purported to facilitate investment in Russia, and it comprises seven elements: investment cooperation initiatives, integration of Russia into the international economic system, support for reform efforts, fostering entrepreneurship, dialogue on energy issues, the peaceful use of nuclear energy, space cooperation. To date there has been some significant progress registered as follow-up to this plan. Among the notable progress are:

- (ア) An investment protection agreement entered into force in 1999;
- (イ) Exchanges by private sectors, i.e., joint conferences;
- (ウ) Russia's participation in APEC;
- (エ) A \$1.5 billion untied loan by EXIM Bank, of which nearly \$1 billion has been disbursed;
- (オ) Training of corporate managers, especially for small-medium size industry;
- (カ) Assistance in restructuring state-owned enterprises;
- (キ) Training of public servants; and,
- (ク) Dialogue in the energy sector.

Another area which Japan believes has to be tackled in relations to Russia is nuclear non-proliferation. Peace nuclear use and non-proliferation are important policy objectives for Japan. Thus the Japanese government has extended significant contributions to projects in these areas in Russia since 1993 and the Hashimoto-Yeltsin Plan further enlarged the program. Japan pledged to extend \$100 million to the former Soviet republics to help ensure the proper dismantlement of nuclear weapons in accordance with START I and II. At the Koln summit in 1999, Japan pledged another \$200 million. This financial assistance will go to four republics of the former Soviet Union, namely Russia, Ukraine, Kazakhstan, and Byelorussia. It is being provided to such projects as:

- 1) the construction of a low level liquid radioactive waste treatment plant;
  - 2) the dismantling of decommissioned nuclear submarines in the Far East region;
  - 3) the installation of anti-radiation measures around a nuclear testing site in Semiparatinsk;
- and,
- 4) the provision of medical equipment for personnel engaged in dismantling nuclear weapons.

Whether these efforts on the part of Japan will produce positive responses from the Russian side is yet to be seen. This is partly because these efforts must be compatible with economic principles and accepted by the peoples of both sides. This means for example, that Japanese

investors may conclude that the Russian Far East, with a population of about 8 million and without adequate infrastructure, may not justify aggressive investment or other initiatives in spite of the future potential for the development of abundant energy supplies in the region. Likewise, Russia may consider Japan's involvement falls far short in comparison with other western countries that have committed not only funds but also massive personnel expertise to help Russia to reform its system. In fact the involvement of European and American banks and security firms has been far deeper and more extensive than their Japanese counterparts.

### **Conclusion**

In the Asia-Pacific region, only the Far Eastern part of Russia and North Korea have not enjoyed dynamic economic interface with Japan and been left behind in the wake of the emergence of the Asia-Pacific region. If Russia realized this fact, We could reasonably expect Russia pay more attention to Japan. We definitely must have more exchanges of people, especially young people but also leaders of the two countries, particularly politicians and journalists. Japan has initiated many new programs to invite people from Russia. I hope these measures would help close the perception gap between the two countries. In pedantic language they should serve the purposes of mutual understandings and confidence building.