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## **RUSSIA'S FAR EAST AND JAPAN: OBSTACLES TO COOPERATION**

*Yoshiaki Nishimura*

Russia's Far Eastern Federal District managed to record a 3.5% economic growth in 2009, although the Russian economy as a whole suffered a major setback with its real gross domestic product contracting by 7.9% compared with 2008. This was largely due to the growth of the mining and manufacturing industry in Sakhalin, the extractive sector in particular. Moscow's high-powered preparations for the 2012 Asia-Pacific Economic

*The views expressed in this piece are the author's own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

Cooperation (APEC) summit in Vladivostok are also adding dynamism to the development of the Far Eastern economy.

The hosting of the APEC summit in Vladivostok will have broader economic significance beyond the direct economic impacts of investments in infrastructure facilities and other endeavors. It is a sign of Russia beginning to attach greater importance to the economic development of its Far Eastern region as part of its efforts to enhance its status, both political and economic, in the Asia-Pacific region. Beginning in Moscow and running through the Far East, one may say that Russia's new political vector is now directed toward the Asia-Pacific.


It is notable that high-level officials from the Russian federal government visited the Far Eastern region and announced a development strategy for the Far East and Baikal areas on December 28, 2009. Thanks to the announcement, federal funds have come to be allocated for the development of the Far East, although there is still room for doubt about the feasibility of the development strategy. The Russian government is now actively inviting Japanese companies to participate in the Far East development projects that it has funded.

In addition to oil exports from the Sakhalin I project, Moscow has recently started exporting liquefied natural gas (LNG) from the Sakhalin II project as well as oil extracted at Taichet in eastern Siberia from the port of Kozmino, near Vladivostok. All this indicates Moscow's eagerness to join the Asia-Pacific markets. The active participation of Japanese companies in the Sakhalin projects so far and Japan's large imports of oil and gas from the region may give an impression that the Japan-Russia relationship is developing in a dynamic way in the Far East. Yet it is just part of the whole picture.

Japan's trade with Russia is suffering from the repercussions of the international financial crisis. Its import from Russia decreased substantially, but in particular, its exports to Russia have dropped dramatically. Japan's major export item to Russia is machinery and equipment, with a very significant portion – three quarters – accounted for by automobiles. Japan's exports of automobiles to the Far Eastern District dropped by 90 percent in 2009 compared with the previous year, and exports of used cars, the majority of the automobile exports to

Russia, have suffered a 92 percent drop. This has more to do with a major increase in tariffs introduced by the Russian government to protect its domestic automobile manufacturers than the general economic downturn. This fact is an indication that the economic relationship between Japan and Russia is still prone to political risks.

More importantly, there is a question of the quality of Russia's domestic markets. In Japan there have been constant efforts to increase exports to the Russian Far East but they have not yet produced significant results. The presence of Japan's small- and medium-sized companies in the region remains weak. This is due to the lingering bitterness that Japanese companies experienced when they set up operations in the region in the 1990s. Unlike the major global corporations that enjoyed political support from the Russian federal government, many of these Japanese companies were unable to dispel their distrust of the rules and business ethics in the Russian markets. The uncertainties that accompany doing business in the Far East also made transaction costs high. Herein lies a reason why Japanese companies are reluctant to take part in the Far Eastern development projects today.

If Russia wants to attract more Japanese companies to its economic endeavors, it will need to make efforts to improve the quality of its markets. Otherwise, it will be difficult for Japan and Russia to develop their two-way economic relationship in a full-fledged manner, regardless of the resolution of their dispute over the Northern Territories.

*Yoshiaki Nishimura is Professor of Economics at Teikyo University in Tokyo.*