

## Japan-Russia Summit Time to exploit complementarities?

### SUMMARY

Russian President Vladimir Putin – who has already met Japan's Prime Minister, Shinzō Abe several times, both in Russia and elsewhere – will make a long-awaited official visit to Japan on 15 and 16 December 2016.

The visit is the outcome of Abe's effort to create a climate of confidence between the two countries, and thereby achieve an agreement on the territorial dispute that has prevented the signature of a peace treaty for more than 70 years, which concerns the islands known as the Northern Territories or Southern Kurils.

Japan – a technologically advanced country – and Russia – a country extraordinarily rich in mineral resources – have complementary economies that would gain mutual benefit from a higher degree of cooperation. Nevertheless, and despite their geographical proximity, the level of trade and economic cooperation between the two countries is comparatively low.



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## Two countries that have not signed a peace treaty since World War II

In the last days of the Second World War, the Soviet Union broke its 1941 non-aggression pact with Japan, and occupied the Kuril Islands situated just a few kilometres off Japan's northern island of Hokkaido. In October 1956, Japan and the Soviet Union ceased the state of war, restored diplomatic relations and jointly [declared](#) their intention to negotiate a Peace Treaty; no treaty has however ever been signed. In March 2001, ten years after the Soviet Union's collapse, Vladimir Putin, in a previous term as Russia's president, proposed to Japan's then-Prime Minister, Yoshiro Mori, during [talks in Irkutsk](#), to resolve the peace treaty issue based on the 1956 Joint Declaration. The latter's ninth article had established the principle of restitution of the two smallest islands (Shikotan and Habomai) after the conclusion of a peace treaty. But Tokyo later showed no interest in this solution, insisting on the return of all 'four islands in a batch', and talks were frozen.

A breakthrough on this issue could raise the current modest level of political and economic interaction between the two countries. Japan, with its advanced technology, and Russia, with its wealth of natural resources, are naturally complementary economies: a shift in their relations would unlock untapped potential. In political-cooperation terms, the Japanese are especially concerned with the security framework in the Asia-Pacific region, particularly in view of growing [Chinese assertiveness](#) in the East China Sea, and Beijing's claim to the Senkaku/Diaoyu islands. Japan is also determined at all costs to avoid an anti-Japanese military alliance between the region's two nuclear powers, China and Russia. For its part, though traditionally oriented towards Europe, Russia is now trying to carve out a role in Asia, a region it previously neglected, and where it needs to beef up friendly relations, not least in order to avoid becoming Beijing's 'junior partner'.

Since his return as prime minister in December 2012, Shinzō Abe has been working to create a personal relationship with Putin to improve bilateral relations with a view to resolving the issue of the Northern Territories/Southern Kurils, still much resented by [public opinion](#) in a country which has observed '[Northern Territories Day](#)' on 7 February every year since 1981. In his efforts to secure an agreement, Abe has been encouraged by Putin's March 2012 [statement](#) that the territorial issue should be settled as a 'draw' (the Russian leader, an expert judoka, used the Japanese word *hikiwake*), in which neither side loses. The strong support enjoyed by both leaders in their countries is another factor that could facilitate an arrangement. In pursuit of an agreement, Abe has paid [four official visits](#) to Putin despite the Russian president never reciprocating, and there have been several other meetings between the two leaders, most recently on the sidelines of the November 2016 Asia-Pacific Economic Cooperation (APEC) summit. In November 2013, the first ever '[two plus two](#)' talks between their foreign affairs and defence ministers took place in Tokyo.

These diplomatic efforts have been hampered by the Ukrainian crisis. Japan aligned itself with its traditional US ally in imposing sanctions on Moscow, and in autumn 2014 it [postponed](#) a previously [agreed](#) visit to Putin under [pressure from Washington](#). For reasons of its own, Japan supports the principle that force cannot be used to modify the territorial status quo; Abe realises that turning a blind eye to Moscow's annexation of Crimea could put Japan at risk of standing alone in the event of Chinese claims on the Senkaku/Diaoyu islands in the East China Sea moving to military action. Tokyo's determination to pursue dialogue with Russia despite these tensions has resulted in an, at times, ambiguous approach. In February 2014, Abe attended the opening ceremony of the February 2014 Sochi Winter Olympic Games in Russia, boycotted by the other G7

leaders. Despite condemning Russian aggression in Ukraine, Japan's sanctions have been milder than others', and its reluctance to adopt the same stance as other Western powers has even been noted in [Russian state-controlled media](#). In spring 2016, while preparing the ground for Japan's hosting of the G7 in [Ise-Shima](#) on 26-27 May 2016, Abe worked to play a bridging role among Putin and the G7 leaders.

#### **The Northern Territories/Southern Kurils**

With the Treaty of Shimoda in 1855, Japan and Russia agreed on the partition of the islands between Hokkaido island and Kamchatka peninsula. Tokyo gained control of the four islands called the Northern Territories/Southern Kurils: there are two larger islands – Etoforu/Iturup and Kunashiri/Kunashir – as well as Shikotan and Habomai, which combined represent just 7 % of the territory of the group. All the remaining islands were placed under Russian administration. With the 1875 Treaty of Saint Petersburg, Japan renounced to its rights to Sakhalin, and Russia in exchange gave up its rights to all the Kuril islands. Following the Russo-Japanese war of 1904-1905, the 1905 Treaty of Portsmouth extended Japanese territory to the southern part of Sakhalin. In August 1945, the Soviet Union occupied the entire Kuril chain and deported the population of 17 000 Japanese living there. In the 1951 [Peace Treaty](#) signed by Japan with the Allied Powers, Japan formally renounced its claim to the islands; however, the Soviet Union was not a signatory to this treaty, which did not specify to which country they should be transferred. In [November 2010](#) then-president Dmitry Medvedev became the first Russian leader to visit the islands. As prime minister, he paid two further visits, in [July 2012](#) and [August 2015](#), sparking Japanese outrage on each occasion.

The **European Parliament's** [resolution](#) of 7 July 2005 on 'relations between the EU, China and Taiwan and security in the Far East' urged all countries in the Far East to seek bilateral agreements to resolve their outstanding territorial disputes. MEPs called for 'the return to Japan of the "Northern territories" that were occupied by the then Soviet Union at the end of World War II and are currently occupied by Russia'.

#### **Economic ties between Japan and Russia**

Japan and Russia have complementary economies that would mutually benefit from closer cooperation. Japan's need to import Russian oil and gas has increased since its shift away from nuclear power following the 2011 Fukushima disaster; for its part, Russia needs Japanese investment and know-how to modernise its economy. Nevertheless, and despite their geographical proximity, the level of trade and investment between the two countries is comparatively [low](#). Bilateral trade has [quadrupled](#) in the past decade, reaching a record-high of US\$34.8 billion in 2013 (since then it has radically [dropped](#), due to the fall of the ruble and oil prices); even so, this is less than 4 % of Japan's trade with China. In [2014](#), 1.3 % of Japanese exports had Russia as a destination, while 3.6 % of imports came from Russia. Japan's share of Russian imports was 4.6 %, while exports represented 4.3 %.

Russian exports are increasingly dominated by oil and liquefied natural gas (LNG) – in 2014, these represented one half and one quarter of total Russian exports to Japan respectively. As a result, Russia has become a major supplier of oil and gas to Japan (8 % of its oil imports and 10 % of its LNG imports). In the other direction, most Japanese exports to Russia are manufactured goods, with vehicles (often second-hand) in first place, followed by nuclear reactors, boilers and machinery. Since 2012, Russia's growing energy exports have shifted the trade balance with Japan in its favour.

As for investments, a mere 0.02 % of Russian foreign direct investment (FDI) went to Japan, whereas 1.29 % of FDI in Russia came from Japan. Japanese investments in Russia

focus on the energy sector, and include the East Siberia-Pacific Ocean ([ESPO](#)) pipeline, which transports crude oil from the East Siberia oil fields for export to Asia-Pacific markets, as well as the [Sakhalin I](#) and [Sakhalin II](#) offshore oil/gas development projects.

## Outlook

North-east Asia is home to five of the ten largest armed forces in the world (three of them nuclear powers); the United States also has a substantial military presence there. Against this backdrop, closer cooperation between Japan and Russia – possibly following settlement of the Northern Territories/Southern Kurils issue – would be a welcome step towards regional stability. However, both Abe and Putin, though strong leaders, may find it difficult to overcome internal and external constraints. Domestic public opinion in both countries may oppose a *hikiwake* solution, while current geopolitical tensions – including Ukraine, Syria, and the South and East China Seas – could also stand in the way of an agreement. Another factor is the general uncertainty over future US foreign policy following Donald Trump's election as US President.

Putin's fourth official visit to Japan as Russia's president will take place on [15 and 16 December 2016](#); the two leaders will meet in Abe's native prefecture of Yamaguchi in western Japan and in Tokyo. To prepare the ground, Japan is trying to lure the Russians with prospects for [economic cooperation projects](#) in eastern Russia; these go beyond traditional cooperation on energy and include health facilities, urban development, industrial development and advanced technology. For these to work, Japan will need to convince domestic companies to play along, and it will also have to tread cautiously in order not to break the G7 sanctions front against Moscow. Meanwhile, Russia could be tempted to use a 'carrot and stick' approach, showing Japan the perspective of a solution to the territorial dispute while increasing [intrusions](#) in Japanese territorial waters and airspace or continuing to strengthen its military presence in the disputed islands. In November 2016, Moscow [announced](#) the deployment of anti-ship missiles to the two larger islands of Etoforu/Iturup and Kunashiri/Kunashir. Recent [statements](#) by Russian foreign minister, Sergey Lavrov suggest that a breakthrough at the summit is unlikely. This is also due to Russian military leaders' belief that control of the islands is [strategic](#) for maintaining access to the Pacific Ocean for their Pacific Fleet. Nevertheless, given both sides' interest in cooperation, the two countries will likely continue pursuing closer ties.

## Main reference

[Japan-Russia relations. Implications for the U.S.-Japan alliance](#), G. Rozman (ed.), Sasakawa Peace Foundation USA, 2016.

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