



**Sharing the wealth to melt the ice: Japan and Russia** by  
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Japanese Prime Minister Abe Shinzo had a two-day summit meeting with Russian President Vladimir Putin on Dec. 15-16, 2016, where they agreed to 80 items in an eight-point plan for Japan-Russia economic cooperation. No progress was made regarding the territorial dispute over the four islands seized by Russia from Japan at the end of World War II. Despite this seemingly one-sided arrangement, economic cooperation between Japan and Russia should be pursued, since Russia has long sought Japanese cooperative support for its Far East development, and Japan needs to strengthen its relationship with Russia to increase its security. In the long-term, Japanese investment may also generate the trust and goodwill necessary for both sides to reach a deal on their territorial dispute.

There are three reasons why Russia may want to cooperate with Japan. The first is the fragile state of its economy. Russia depends on the export of oil and natural gas, and a drop in prices would lead directly to a decrease in Russian economic strength. In fact, the current long-term drop in crude oil prices has significantly harmed the Russian economy.

Second, risks inherent in the natural gas and pipeline arrangements with Europe have increased. Conventional theory holds that Russia, a natural gas supplying country, should have an advantageous position vis-a-vis the EU, a large gas consumer. However, if a supplier takes on fixed business partners out of necessity, it loses income if pipelines stop operating. At the same time, consumers can always find a substitute for natural gas (e.g., oil, coal, nuclear power or new energy sources) in the long term. Thus, it is not possible for a supplier country to use natural gas as a negotiating point. In fact, since the Ukraine crisis, Russia has been unable to leverage its pipelines in negotiations.

The third weakness is Russia's relationship with China. Since the risk accompanying pipelines to Europe has increased, Russia has sought to develop customers in the Far East region and move closer to China. However, Russia fears that Siberia could effectively fall under Chinese control as a result of a large-scale mobilization of labor, which China has in abundance.

For its part, Japan needs to strengthen the Japan-Russia relationship, given Japan's fears about 1) the unstable security partnership between Japan and the United States resulting from fears of isolationism triggered by the Trump presidency and 2) China's rapid military expansion and presence in regional seas. Japan and Russia can help compensate for the

other's weaknesses even though there has been no progress in their cold relationship for some 70 years.

The economic relationship between the two countries has tended to focus on resource acquisition and support for development. However, there is another option: using the revenue obtained from resource sales to improve the living standard of the Russian people and strengthen mutual trust between the two countries.

I've visited Sakhalin Oblast on five survey missions since 2013 and believe that it could be a focus for shaping the relationship between Japan and Russia. The situation there has been changing dramatically due to the development of oil and natural gas projects. The oblast government's 2008 budget showed annual revenue of 29.1 billion rubles (\$582 million) and annual expenditures of 30.7 billion rubles (\$614 million). By 2014, these figures had increased dramatically, with revenue reaching 131.8 billion rubles (\$2.63 billion) and expenditures hitting 133.5 billion rubles (\$2.68 billion).

However, profits from the development of oil and natural gas don't flow directly to enhance the standard of living of the Sakhalin people. Many roads are old and not yet paved in Yuzhno-Sakhakinsk, the capital of the oblast. People live in dilapidated collective housing built in the Soviet era; it was reported that most water pipes in use were installed during the period of Japanese rule some 100 years ago.

Improvement of the social welfare system, which has only managed to sustain a minimum standard of living, is one of the most urgent issues faced by the Putin administration. Putin has given direct orders to the governor of Sakhalin Oblast to enhance education and medical care.

Among the Oblast government's measures to foster human resource development is establishment of the Petroleum Department at Sakhalin State University, with the help of Exxon Mobile Corporation. It aims to cultivate experts in oil and gas extraction, geology, the construction of infrastructure such as roads, and automobile manufacture.

The Oblast government has also drawn up a long-term strategy for development of the local economy. Various projects are planned: 1) improvement of state arterial roads and the train network; 2) construction of ports and harbors; 3) improvement of Yuzhno-Sakhalinsk international airport.

The diversification of industry, to reduce dependence on resource exports, is a critical agenda item for Russia. Russia appears to believe that strengthened relations with Japanese corporations could facilitate Russia's emergence as a great manufacturing nation.

In short, Russia's main desire is, as seen in the case of Sakhalin Oblast, to improve the standard of living, largely in terms of social security, welfare, education, the cultivation of

human resources, and infrastructure. Japan's cooperation could lead to improvement of the standard of living in the region, and to the development of grassroots-level trust between the two nations. The construction of a trust relationship must not be confined to summit-level discussions.

*PacNet commentaries and responses represent the views of the respective authors. Alternative viewpoints are always welcomed and encouraged.*