

## Recent Development of Russia – Japan Economic Relations and Implications for Korea

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### I. Introduction

Despite their geographical proximity, Russia and Japan, two economic powers in the world, have not been able to establish a significant level of economic cooperation. The territorial dispute between the two countries over the Kuril Islands has been one of the major hurdles preventing them from leveling up their relations. The tilted and monotonous structure of their economic cooperation has also played a role in this.

Under the Abe administration, Japan adopted a new policy approach toward Russia, i.e. the division of politics and business, or the prioritization of economic issues. Through frequent summit meetings held from 2013 and in 2016 in particular, Japan and Russia came up with an “8-point economic cooperation plan” (hereafter the “8-point plan”).

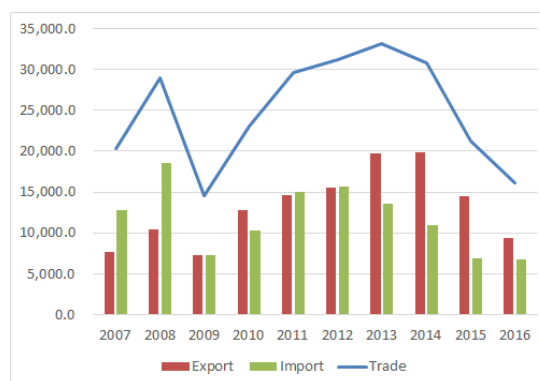
This paper evaluates economic cooperation between Russian and Japan, analyzes the 8-point plan, and draws implications for Korea.

### II. Economic Cooperation between Russia and Japan

#### 1. Trade

Graph 1. Russia's Trade with Japan (2007~16)

(Unit: USD mill.)



Source: Russian Customs Services (Accessed on 20th Feb, 2017).

The bilateral trade volume recorded an all-time high, USD 33.3 billion dollars, in 2013. However, the economic recession in Russia soon after brought about a plunge in the volume, to USD 16 billion in 2016. In particular, imports of Japanese durable goods dropped due to devaluation of the Russian ruble and the

worsening of terms of trade led to a fall in Russia's export volumes. Thus, Russia took merely 0.8% and 2.4%, respectively, in Japan's export and import in 2016, and Japan captured just 3.3% and 3.7% in Russia's export and import.

The trade structure between Russia and Japan is quite biased, or in other words, the roles of the two are clearly defined. That is, Russia exports energy resources to Japan and Japan exports manufacturing goods to Russia. In 2015, 83.3% of Russia's exports to Japan consisted of energy goods and 73.4% of imports from Japan were comprised of manufacturing goods. Such a trade structure is vulnerable to external shocks and stands as an obstacle in fostering complementary industrial cooperation between the two economies.

## 2. Investment

**Table 1. Japan's Investment in Russia by Major Sectors**

(Unit: USD mill.)

	2007	2008	2009	2010	2011	2012	2013
Total	484.1	864.0	3,020.1	1,108.6	1,243.3	1,135.4	2,624.3
Manufacturing	64.1	108.1	227.4	41.5	123.7	144.5	1,341.7
Mining	328.7	474.2	2,608.6	761.7	889.1	766.1	1,169.0
Share of Mining	67.9%	54.9%	86.4%	68.7%	71.5%	67.5%	44.5%

Note: Statistics after 2013 is not disclosed.

Source: Russia Central Bank (Accessed on 3rd March, 2017)

Investment between Japan and Russia flows mostly in one direction: from Japan to Russia. Japanese investment provides a firm foundation for the tilted structure of the cooperation between the two economies. Japan's investment in Russia is mostly directed to the mining sector for energy development. Until the 2000s, the mining sector accounted for much more than 50% of the total investment. This share fell to 44.5% in 2013 due to a one-time

massive investment in the manufacturing sector, more specifically the automobile industry. This can be translated that Japan has been investing in Russia's mining sector to import energy sources from Russia, and the pattern seems to have slightly changed in recent years.

## 3. Cooperation in the Far East

In the economic cooperation between Japan and Russia, the Far East region plays an important role. The energy-abundant Far East exports energy sources to Japan, after receiving a huge investment from Japan. However, the existing cooperation relations between the two nations are at odds with Russia's vision to transform the Far East into the manufacturing hub of Northeast Asia. Thus, both sides will have to come up with a new mid- and long-term economic cooperation plan with a new approach to diversify the trade structure, increase investment and enhance regional development cooperation.

## III. Japan's New Policy Approach: The 8-Point Economic Cooperation Plan

### 1. The 8-point Economic Cooperation Plan

Since 2012, the Abe administration has been seeking for a breakthrough to vitalize economic cooperation and ultimately resolve its territorial issues with Russia. This intention on the part of Japan and its efforts are easily evident by the number of summits in the past 5 years compared with previous periods, i.e. 8 summits from 2013 till 2017. Japan's change of

attitude has been timely as Moscow continues to suffer from economic difficulties due to low oil prices and western sanctions. In short, the 8-point economic cooperation plan is, so to speak, the fruit of Japan's new policy approach.

Prime Minister Abe's 8-point plan was proposed at the Sochi Summit in May 2016, setting a new milestone in Russia – Japan relations. The 8-point plan includes the following agendas: 1) extending healthy life expectancies, 2) developing comfortable and clean cities easy to reside and live in, 3) fundamentally expanding exchanges and cooperation among SMEs, 4) cooperating in energy development, 5) promoting industrial diversification and enhancing productivity in Russia, 6) developing industries and export bases in the Far East, 7) collaborating in the high-tech sector, and 8) fundamentally enhancing people-to-people interaction. These areas were carefully selected to generate the greatest synergy and develop a win-win relationship between the two countries.

The 8-point plan emphasizes cooperation in 1) energy, a traditionally strategic sector, 2) development of the Far East, 3) new areas such as SMEs, hi-technology, etc. and 4) building institutional infrastructure for business promotion.

## 2. Major Achievements and Prospects

Table 1 briefly explains the basic cooperation directions in each category of the 8-point plan. Japan has been making utmost efforts by fulfilling what was agreed during bilateral meetings to build firm trust and effectively strengthen relations with Russia. The 8-point plan is to be specified with practical contents through a series of meetings and consultations

in all levels. In the meantime, Japan created a minister position in charge of promoting economic cooperation with Russia in September 2016 to reorganize and systemize cooperation mechanism.

Since Japan's new policy approach was adopted only a few years ago, it is too early to evaluate its achievements at the moment. To fully realize the agreed projects, Japan and Russia will have to maintain this momentum in the long term.

**Table 2. 8-Point Economic Cooperation Plan (May 2016 Summit in Sochi)**

Categories	Basic directions
Extending healthy life expectancies	Improving the quality of medical services through establishing Japanese-style hi-tech hospital and Russia – Japan health center
Developing comfortable and clean cities easy to reside and live in	Building houses that are adequate for cold climate and waste disposal system, resolving traffic congestion, maintaining water and sewage system, reorganizing urban transport and postal network, redeveloping brownfield and etc. with utilizing Japan's experience and technology in city development
Fundamentally expanding exchanges and cooperation among SMEs	Launching a new organization that provides business matching services, supports ventures, carries out exchange programs between different occupations
Cooperating in energy development	Strengthening and combining the existing energy cooperation to a new level by enhancing oil and gas production capacity, developing the high value-added petrochemical industry, etc.
Promoting industrial diversification and enhancing productivity in Russia	Carrying out symbolic and massive projects
Developing industries and export bases in the Far East	Constructing port, developing arable land, processing sea products and wood, maintaining airports to build an export base toward Asia Pacific region
Collaborating in the high-tech sector	Such as nuclear, ICT

Fundamentally enhancing people-to-people interaction	Expanding exchanges of the youth and sportsmen and cultural tourism to deepen mutual understanding
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Source: Seungsoo Hyun, Research Fellow KINU, Presentation at KIEP Expert Discussion (10th June, 2016, Sejong).

## IV. Implications for Korea

First, Korea needs to take a new approach toward Russia. Currently Seoul is facing numerous internal and external challenges under the rapidly-changing environment in Northeast Asia. Russia is an important partner in both political and economic terms when resolving issues on the Korean Peninsula. Therefore, an open and future-oriented thinking should be incorporated into the new Russia policy.

Second, new mechanisms should be established to implement the new Russia policy. Holding summits on a regular basis will be the most effective way. At the same time, a control tower which directs and manages economic cooperation with Russia should be formed under the government. This will remarkably raise the efficiency of Korea – Russia cooperation.

Third, measures must be prepared for more active participation in Far East development. The Korean government needs to understand the strategic importance of the Far East. The current stagnant economic growth can be overcome through the creation of a “northern growth space.” Eventually such efforts will contribute to bringing peace on the Korean Peninsula.

Most importantly, Korea needs to formulate its own original Russia strategy, keeping what is mentioned above in mind. **KIEP**