

E

 THE RUSSIAN FEDERATION AND THE NEW INDEPENDENT STATES (NIS)

(a) Overview

In Russia, during 2002, the administration of President Vladimir Putin enjoyed a high approval rating (opinion polls generally showed support levels of over 70%) and maintained stable governance supported by favorable economic conditions. Russia carried out active diplomacy centered on summit diplomacy and settled onto a path of partnership with the West, particularly with the United States (US) and the North Atlantic Treaty Organization (NATO).

Japan continued in 2002 to strive for the conclusion of a peace treaty with Russia and a resolution to the issue of the attribution of the Four Northern Islands, and thereby gain a full normalization of relations between Japan and Russia. At the same time, Japan has sought to advance further Japan-Russia relations through frequent high-level dialogue, and it has a basic diplomatic policy of supporting reform efforts in Russia while seeking to strengthen the relationship in a wide range of areas. As a result, Japan-Russia cooperation steadily developed in the areas such as politics, economy, security, people-to-people exchange and international issues.

In regard to the New Independent States (NIS), Japan continued to work on strengthening relations with these countries, from the standpoint that the stability of the NIS countries could directly affect that of the neighboring regions of the Eurasian continent and ultimately could affect the stability of East Asia as well.

(b) Japan-Russia Relations**Continuing intimate political dialogue and developing cooperation on international issues**

Intimate political dialogue continued between Japan and Russia in 2002. First of all, at the summit level, Prime Minister Junichiro Koizumi held a summit meeting with President Putin during the G8 Kananaskis Summit in June. At the summit meeting, the leaders agreed on an official visit by Prime Minister Koizumi to Russia at the end of 2002 or the beginning of 2003, and that a number of Japanese cultural events would be held in Russia

during 2003. In regard to the issue of North Korea, which drew a great deal of concern from the international community in the second half of 2002, Prime Minister Koizumi held two telephone conferences with President Putin at around the time of his visit to North Korea in September. Prime Minister Koizumi visited Russia in January 2003, announcing the Japan-Russia Action Plan, which summarizes bilateral Japan-Russia cooperation to date and offers directions for cooperation in the future, thus providing a navigational chart for Japan-Russia bilateral relations in a variety of fields.

Japan and Russia also maintained frequent foreign ministerial-level dialogue throughout 2002, with a total of six talks held. These began with the visit of Foreign Minister Igor Ivanov to Japan in February for a Japan-Russian foreign ministers' meeting, and it resulted in the announcement of a joint statement on combating international terrorism. Minister for Foreign Affairs Yoriko Kawaguchi made an official visit to Russia in October, where she attended a Japan-Russia foreign ministers' meeting and the Sixth Meeting of the Japan-Russia Intergovernmental Commission on Trade and Economic Issues. Foreign Minister Ivanov visited Japan in December to work on finalizing arrangements for Prime Minister Koizumi's visit to Russia in January 2003. The two foreign ministers also took the occasions of the G8 Foreign Ministers' Meeting in Whistler, Canada in June, the 9th ASEAN Regional Forum (ARF) Ministerial Meeting in Brunei in August and the United Nations General Assembly in New York in September to continue their dialogue. Through this series of meetings and telephone conferences, Japan and Russia carried out an intimate exchange of views on a wide range of international issues, including the issues surrounding North Korea, Afghanistan and Iraq.

Peace Treaty Negotiations

The 2001 Irkutsk Statement succeeded in summarizing the results of both sides' utmost efforts toward the conclusion of a peace treaty on the basis of the agreement of Krasnoyarsk summit meeting, and in establishing a new foundation for future peace treaty negotiations. Both countries confirmed that the Japan-Soviet

Japan-Russia Action Plan (Outline)

(signed January 10, 2003)

1 Deepening of Political Dialogue: Advancing Multi-tiered and Comprehensive Dialogue

- Ensuring regular summit exchanges. Expanding contact at the ministerial level (close contact between foreign ministers, mutual visits by defense ministers, holding of the Japan-Russia Intergovernmental Commission on Trade and Economic Issues, etc.). Support for the expansion of exchanges between parliaments and parliamentarians.

2 Peace Treaty Negotiations: Overcoming Difficult Legacies from the Past and Opening up a new horizon for broad Japan-Russia Partnership

- In regard to the territorial issue, based on the recognition that the 1956 Joint Declaration of Japan and the USSR, the 1993 Tokyo Declaration, the 2001 Irkutsk Statement and other agreements are the basis for negotiations to accomplish a complete normalization of Japan-Russia relations by means of concluding a peace treaty through the solution of the issue of attribution of the Northern Territories, negotiations should be accelerated to resolve the remaining issues at an early date.
- Efforts such as the joint compiling of educational materials will continue in the aim of enlightening public opinion.
- Developing mutual visits without passports or visas between Japanese citizens and the current Russian residents of the Northern Territories and beginning an exchange of views relating to environmental issues of the Northern Territories.
- Assistance to residents of the Northern Territories, Framework Agreement concerning operations of Japanese fishing vessels in waters around the Four Northern Islands, etc.

3 Cooperation in the International Arena: Advancing Dialogue and Action as Strategic Partners

- Cooperation on issues of international terrorism. Cooperation to prevent the flow of illegal narcotics from Afghanistan in the border regions of Tajikistan and Afghanistan.
- A positive approach to expansion of Russia's participation in the G8 Summit process.
- Strengthening of the coordinating mechanisms on cooperation for the Elimination of Nuclear Weapons in Russia, steady implementation of the dismantlement of nuclear submarines.
- Russia confirms that it will provide all the cooperation possible toward the normalization of Japan-North Korea relations through the resolution of concerns between Japan and North Korea, including the abduction issue and security problems.
- With regard to the nuclear issue in North Korea, both sides express their deep regret and grave concern regarding the declaration by North Korea concerning its intention to withdraw from the Nuclear Non-Proliferation Treaty (NPT) and non-compliance with its obligations under the safeguards agreement of the International Atomic Energy Agency (IAEA). Both sides confirm that it is vital that North Korea immediately withdraw its decision and cooperate immediately with the IAEA concerning the resolution on the implementation of safeguards adopted by the board of governors of the IAEA. Japan and Russia call on all related countries to continue with dialogue in order to find a political solution to the various related issues.
- Both sides call on Iraq to accept continued unconditional and unlimited weapons inspections and to implement fully all relevant resolutions of the United Nations Security Council resolutions.

4 Cooperation in Trade and Economic Areas: Trust and Actions of Mutual Benefit

- Early establishment of a Japan-Russia Trade and Investment Promotion Organization.
- Prompt signing of a new memorandum on the Japan Centers. In this regard, consideration of what role Japan Centers can play in trade and economic exchange.
- Development of cooperation in the development of energy resources and the construction of a pipeline to transport such resources from the Russian Far East and the Siberian region.
- Cooperation in international consultations on the international thermonuclear experimental reactor (ITER).
- Enhancing economic relations with the Russian Far East and the Siberian region.
- Both sides will review the economic exchange between Japan and Sakhalin.
- In addition, a wide range of areas covered including the environment, science and technology, nuclear power, space, transport and tourism.

5 Development of Relations in Defense and Security: For the Peace and Safety of Both Countries

- Expansion of high-level defense exchanges. Continuation of consultations between defense authorities.
- Continuation of joint exercises and goodwill exercises.
- Cooperation to counter the threat posed by international terrorism and international organized crime.

6 Advancements in Cultural and Interpersonal Exchange: For the Deepening of Mutual Understanding and Friendship

- Closer cooperation in the "Japanese Culture Festival in Russia 2003."
- Enhancement of youth exchanges.
- Cooperation in holding the Third Japanese-Russian Forum
- Developing an environment for increased person-to-person exchanges.

The Northern Territories Issue

In 1855, the Treaty of Commerce, Navigation and Delimitation between Japan and Russia, which had been concluded in a completely friendly and peaceful manner, confirmed already established natural boundaries by drawing the boundary between the islands of Etorofu and Uruppu and establishing that the Four Northern Islands (Habomai, Shikotan, Kunashiri and Etorofu) are part of Japan's territory. Following the conclusion of the treaty, the Four Northern Islands continued to be an integral part of Japan's sovereign territory that had never been held by foreign countries.

In 1945, the Soviet Union ignored the Neutrality Pact that was valid between Japan and the Soviet Union and entered the war against Japan. After Japan had accepted the terms of the Potsdam Declaration, the Soviet Union began to occupy the Kuril Islands. Then, between August 28 and September 5, it occupied all of the Four Northern Islands and by 1949, it had forcibly deported all 17,000 Japanese residents. In the Four Northern Islands, the illegal occupation by the Soviet Union and Russia continues today.

In the 1951 San Francisco Peace Treaty, Japan renounced its right to the Kuril Islands, but they do not include the Four Northern Islands. The Soviet Union is not a signatory country to this treaty and the United States, which is the drafting country of this treaty, has consistently supported Japan's position.



The Northern Territories

In 1956, as there had been no prospect for agreement regarding the issue of the Northern Territories, excluding Habomai and Shikotan Islands, diplomatic relations were first resumed by the Japan-Soviet Joint Declaration, and it was established that peace treaty negotiations would be continued. After the 1960s, the Soviet Union continued to take the stance that the Northern Territories issue did not exist, but it agreed in the 1993 Tokyo Declaration that the two countries should continue negotiations for the conclusion of a peace treaty by resolving the issue of the attribution of the Four Islands. Based on this agreement, the Irkutsk Statement was adopted in 2001.

Joint Declaration³² in 1956 is a fundamental legal document that established the starting point in the peace treaty negotiations. Based on this confirmation, it was reaffirmed that a peace treaty should be concluded through the solution of issues concerning the attribution of the Four Islands on the basis of the Tokyo Declaration

on Japan-Russia Relations in 1993,³³ and thereby the bilateral relations should be fully normalized.

Vigorous negotiations continued through 2002, based on the foundation of the agreements achieved by Japan and Russia to date. At the level of heads of state, it was confirmed at the summit meeting in June that

³² After the Soviet Union refused to sign the San Francisco Peace Treaty, Japan and the Soviet Union negotiated a separate peace treaty from June 1955 through October 1956, but there was no sign of an agreement being reached over the Northern Territories issue except in regard to Shikotan and Habomai Islands. As a result, the Japan-Soviet Joint Declaration was signed on October 19 to end war between Japan and the Soviet Union and to restore bilateral diplomatic relations. (The declaration was ratified in the assemblies of both countries.) Article 9 of the declaration stipulates that Habomai and Shikotan will be returned to Japan after the conclusion of a peace treaty, and that Japan and the Soviet Union will continue peace treaty negotiations.

³³ Main points of the 1993 Tokyo Declaration:

(1) The territory issue is defined as referring to the attribution of the Four Islands comprising the Northern Territories, specifically identified as Etorofu, Kunashiri, Shikotan and Habomai Islands.

(2) The declaration clearly states that the attribution of the Four Islands will be resolved, a peace treaty concluded and bilateral relations fully normalized, in that order.

(3) Clear negotiation guidelines are set down, namely that the Northern Territories issue will be resolved: (a) on the basis of historical and legal facts; (b) based on the documents produced with the two countries' agreement; as well as (c) on the principles of law and justice.

(4) It was confirmed that the Russian Federation is the State retaining continuing identity with the Soviet Union and that all treaties and other international agreements between Japan and the Soviet Union will continue to be applied between Japan and the Russian Federation.

(5) The declaration recognizes the necessity of overcoming the "legacy of totalitarianism" and the "difficult legacies of the past in the relations between the two countries."

negotiations would continue on the basis of previous accomplishments. At the level of foreign ministers too, it was reaffirmed at the foreign ministers' meeting in February that all previous agreements would be respected in continuing future peace treaty negotiations, and the foreign ministers' meeting in October saw agreement on the view that the issue of concluding a peace treaty was a very important pillar of the Japan-Russia Action Plan. At the December foreign ministers' meeting, Minister for Foreign Affairs Kawaguchi pointed out that the conclusion of a peace treaty would be essential to take relations between Japan and Russia to a qualitatively new level. The issue of the conclusion of a peace treaty was also discussed continuously in working-level dialogue throughout 2002.

At the time of Prime Minister Koizumi's visit to Russia in January 2003, both leaders expressed their strong political determination, with both countries confirming their intention to resolve the issue of the attribution of the Four Islands and conclude a peace treaty as soon as possible, thus fully normalizing the relationship. It was also agreed that the foundation of future peace treaty negotiations would be the three specific texts mentioned in the Japan-Russia Action Plan, the 1956 Japan-Soviet Joint Declaration, 1993 Tokyo Declaration and the 2001 Irkutsk Statement.

(c) Japan-Russia Economic Relations

At the government level, the visit of Foreign Minister Kawaguchi to Russia in October provided the occasion to hold the 6th meeting of the Japan-Russia Intergovernmental Commission on Trade and Economic Issues, where opinions were exchanged in regard to the Russian economy, Russian system reform, the creation of the Trade and Investment Promotion Organization, and cooperation in areas such as energy, science and technology.

There was also vigorous exchange with Russia in the private sector, with a visit to the Russian Far East by the mission group of the Japan Association for Trade with Russia and Central-Eastern Europe in June, a mission of the Japan Association of Corporate Executives to Russia in July, Japan Business Federation (Nippon Keidanren)-run Japan-Russia Business Promotion Seminar held in Russia in September, and the Japan-Russian Federation Joint Economic Committee held in Tokyo in October.

In addition, the Sakhalin Project, one of the largest oil



Prime Minister Junichiro Koizumi and President of Russia Vladimir Putin shaking hands during the Japan-Russia summit meeting (January 2003)

and gas development projects in Russia, in which Japanese companies are participating, is being stepped up with the aim of achieving the start of grade oil production from 2005 for the Sakhalin I project and for the Sakhalin II project, which began in 1999, to follow grade oil production with the start of natural gas production in 2006.

As a measure to support economic reforms undertaken in Russia, Japan has implemented various kinds of technical assistance such as organizing business management seminars in the Japan Centers and providing an opportunity for a training program in Japan. They are also aimed at developing a market economy in Russia and enhancing trade and economic relations between the two countries.

Moreover, on the occasion of Prime Minister Koizumi's visit to Russia in January 2003, both countries agreed to develop economic cooperation under the principles of reciprocity, including cooperation in the energy sectors, such as the development and transportation of energy resources in the Russian Far East and Siberian regions.

(d) Exchange and Cooperation between Japan and Russia in Various Areas

In step with the development of political dialogue and

Japan's Assistance to the Russian Federation

Japan's assistance to the Russian Federation totals around US\$6.59 billion on a commitment basis

Breakdown of figures (the conversion of the yen to the US dollar is calculated at the Ministry of Finance payment officer rate for every fiscal year (there are cases where totals do not add up due to rounding)).

1. Loans and trade insurance US\$5.6 billion: US\$1.2 billion in Japan Bank for International Cooperation (JBIC) loans, US\$2.9 billion in trade insurance and US\$1.5 billion in JBIC untied loans.

	Type of assistance	Date of announcement	State of implementation
Loans and trade insurance	US\$100 million in JBIC loans for humanitarian assistance	Dec 1990	Signing of exchange of notes (E/N) in September 1992 and loan contract takes effect in March 1993. After the government of the Russian Federation's decision to reduce import subsidies in July 1993, due to financial difficulties among Russian importers, the program ends with approximately US\$19 million in disbursement.
	US\$2.5 billion assistance package (1) US\$500 million in JBIC export credit facility for humanitarian assistance (2) US\$200 million in JBIC export credits for facilitation of trade and economic activities (3) US\$1.8 million in trade insurance for facilitation of trade and economic activities	Oct 1991	(1) As a result of coordination with the Russian side, it is decided to place allocation priority on the Russian Far East, and currently four loan contracts have been signed: (a) the Izhmash automobile plant project; (b) the Khabarovsk baby food plant construction project; (c) the Irkutsk hospital project, and (d) the Barvikha Presidential Medical Center project. (2) The loan contract for the modernization of the Moscow-Khabarovsk Trans Siberian Telecommunication Network is signed in July 1994. Completed in March 1996. (3) US\$700 million in the area of energy development is accepted (1995). Around US\$400 million is accepted for refinancing, investment insurance and short-term trade insurance as well.
	US\$1.5 billion (1) US\$1.1 billion: trade insurance (2) US\$400 million: JBIC export credit facility	Apr 1993	(1) Not implemented. (2) Loan contracts are signed in 1995 for three projects—Impuls microwave oven plant, modernization of Yaroslavl' oil refining facilities and the Kama truck factory renovation. Delivery of equipment for all three projects is complete.
	US\$1.5 billion: JBIC untied loans	Feb 1998	During Foreign Minister Obuchi's visit to the Russian Federation in February 1998, Japan expresses its intention to provide the loans over the following two years as part of a co-financing program with the World Bank through the appropriate utilization of the fiscal investment for the purpose of assisting economic reforms in Russia. A loan contract worth US\$800 million is signed in July, and a loan agreement for the remaining portion of US\$700 million is signed in November 1999. Up to now, a total of US\$1.175 billion in loans has been disbursed (the whole of the US\$800 million portion, and US\$375 million of the US\$700 million loan) and is complete. Financing of the remaining US\$325 million is cancelled in late 2000, following the cancellation of the loans by the World Bank.

2. Grant aid US\$990 million for emergency humanitarian assistance and technical assistance, implemented by the Cooperation Committee, which is an international organization established for the purpose of carrying out Japan's assistance to the NIS countries, and for cooperation in the area of dismantlement of nuclear weapons.

	Type of assistance	Date of announcement	State of implementation	
Humanitarian assistance	2.6 billion yen assistance for Chernobyl victims	Nov 1990	Contributed to the World Health Organization (WHO) (for the former Soviet Union). Complete.	
	1 billion yen in humanitarian assistance	Dec 1990	Provision of food supplies, pharmaceuticals and medical equipment through the International Red Cross (for the former Soviet Union). Complete.	
	6.5 billion yen in humanitarian assistance	Jan 1992	Provision of food supplies, pharmaceuticals and medical equipment through the International Red Cross. Complete.	
	US\$100 million in humanitarian assistance	Oct 1992	Monetization* of food supplies, provision of pharmaceuticals and medical equipment (for the NIS countries). Complete.	
	US\$100 million in humanitarian assistance	Apr 1993	Monetization* of food supplies, provision of pharmaceuticals and medical equipment (for the NIS countries). Almost complete.	
Grant aid	Technical assistance	General account budget (some for the NIS countries)		
		200 million yen	FY1991	Dispatch of experts and intake of trainees in the areas of industrial policy, finance, business management, marketing, etc.
		540 million yen	FY1992	
		840 million yen	FY1993	
		1.37 billion yen	FY1994	
		970 million yen	FY1995	
		1.05 billion yen	FY1996	
		1.05 billion yen	FY1997	
		960 million yen	FY1998	
		1.16 billion yen	FY1999	
		1.18 billion yen	FY2000	
	1.17 billion yen	FY2001		
412 million yen	FY2002			
Others	US\$71.7 million in safety assurance assistance for nuclear power generation plants	Jul 1992	Improvement of safety through installation of an abnormality alert system, and a cooperation program related to nuclear power operation training centers.	
	US\$90 million in reform promotion assistance for the transition to a market economy (some for the NIS countries)	Apr 1993	Used for the establishment and operation of Japan Centers which are human resources development facilities, operation of the Regional Venture Fund established jointly with the European Bank for Reconstruction and Development (EBRD), etc.	
	US\$30 million in the development of small and medium-sized enterprises (SMEs)	Apr 1993	SMEs development assistance, operated in human resources development programs, etc., primarily conducted through the Far East SME International Center. Complete.	
	Japan-Russia Partnership for Reform (US\$100 million)	Nov 1998	Drastic expansion of intellectual and technical cooperation (offering Japan's post-war experience in economic and industrial policies).	
	US\$100 million for cooperation in the area of dismantlement of nuclear weapons (some for the NIS countries)	Apr 1993	Currently being implemented for the Russian Federation, Ukraine, Kazakhstan, Belarus (around 70% of this amount spent for the Russian Federation).	
US\$120 million for cooperation in new projects in the area of dismantlement of nuclear weapons	Jun 1999	Currently implementing or planning such cooperation projects as dismantlement of decommissioned nuclear submarines in the Russian Far East, provision of liquid radioactive waste treatment plant, promotion of the conversion of the military resources to the private sector through the International Science and Technology Center (ISTC) and the management and disposal of plutonium derived from dismantled nuclear weapons.		
US\$100 million for assistance for processing of surplus plutonium	Jun 2002	Plans to offer a contribution to the international organization newly established by the G8 to dispose of Russia's excess plutonium.		

Note: * Some part of humanitarian aid is sold at below-market prices in aid-recipient countries such as Russia, and the proceeds of those sales are used as the humanitarian assistance fund.

cooperation in economic areas, both Japan and Russia have advanced people-to-people exchanges and defense exchanges. In the areas of security dialogue and defense exchange, in 2002 Commander-in-Chief of the Russian Air Force Vladimir Mikhailov visited Japan and Ground Self-Defense Force Chief of Staff General Masahiro Nakatani visited Russia. In addition, vessels of the Russian navy visited the port of Yokosuka in Kanagawa Prefecture and in January 2003, Minister of State for Defense Shigeru Ishiba paid a visit to Russia. In the area of exchange between law enforcement agencies, the head of the Federal Border Guard of Russia Konstantin Totsky visited Japan. Furthermore, in 2002, parliamentary exchanges between the two countries were positively undertaken, with exchanges being deepened among the many parliamentarians traveling between the two countries, including the Speaker of the House of Representatives Tamisuke Watanuki from Japan and Speaker of the State Duma Gennady Seleznev from Russia.

In the area of culture and public relations, in May in St. Petersburg, the National Institute for Research Advancement (NIRA) and Russia's Center for Strategic Studies jointly hosted the Second Russian-Japanese Forum, under the three main themes of "New Paradigms for Peace and Security in the 21st Century," "Fundamental Japanese-Russian Cooperation for Eliminating Transnational Terrorism" and "Prospects for Cultural Exchange between Japan and Russia." In addition, based on an agreement between the two leaders concerning a year of Japan-focused events in Russia, throughout 2003 the Japanese Culture Festival in Russia 2003 will be held and preparations for this are proceeding.

(e) Russian Domestic Politics

With the high rate of support for President Putin and the favorable economic conditions in Russia, the political situation remained stable.

In the Russian parliament, the Unity and Fatherland Party the United Russia was established from a union of the Unity Party, which supports President Putin, and the moderate Political Movements Fatherland Party and All Russia Party. This new party, with the cooperation of other moderate factions, holds more than half the seats in the Duma, resulting in the stable operation of the State Duma. On the other hand, the Communist Party

has been strengthening its critical stance toward the administration since the Party was excluded from the chairmanship of the parliamentary committee in April.

In relations with the regions, President Putin has undertaken federal reforms, coordinating the realms of jurisdiction of central and local governments. Specifically, in addition to the many articles stipulating the jurisdictions of central and local government that have been abolished or revised, in order to unify and clarify the division of powers of central and local governments, a special government committee has formulated a series of draft bills, which are currently being deliberated in the State Duma.

With regard to the Chechen problem, which is one of the largest challenges facing the Russian government, in April President Putin stated in an annual speech that "the military phase is already over." However, subsequent conflicts have broken out in Chechnya and surrounding areas, and no resolution is currently in sight.

In October, armed Chechen insurgents stormed and occupied a Moscow theater, and President Putin, who took a strong stance that "we will never give in to terrorism," carried out a rescue operation. Although almost 130 people lost their lives in the operation, the armed insurgency was suppressed in a relatively short time. In response to this incident, Prime Minister Koizumi sent a message to President Putin, stressing that any terrorist acts involving ordinary people could never be tolerated and justified whatever the reason. Furthermore, at the end of December a suicide bomber attacked the Chechen government building in Grozny, killing 72 people.

(Photo)

Chechen Conflict (Chronology)

November 1990	Chechen-Ingush Republic declares independence from the Russian Soviet Federal Socialist Republic.
December 1991	Fall of the Soviet Union.
December 1994	Russian troops invade Chechnya (first Chechen conflict).
August 1996	Ceasefire by putting on hold the Chechen independence issue for five years.
January 1997	Full withdrawal by Russian troops.
August 1999	Putin appointed prime minister.
September 1999	Series of terrorist bombings in Moscow. Russian Army reinvades Chechnya (second Chechen conflict).
February 2000	Russian forces announce control of the capital, Grozny.
May 2000	Putin appointed president.
August 2002	Large Russian forces helicopter shot down on outskirts of Grozny. Over 120 killed.
September 2002	Russian troops fight armed forces in Ingushetia. Around 90 killed.
October 2002	Terrorist bombing of Grozny police headquarters. Over 20 killed. Occupation of a theater in Moscow. Around 130 killed.
December 2002	Terrorist bombing of the prime minister's office in Grozny. Over 70 people killed.



(f) Russian Economy

Following on from 2001, the Russian economy in 2002 maintained a largely favorable course. With the global economic downturn after the series of terrorist attacks in the US in September 2001 and the subsequent drop in the global price of oil, growth in the Russian economy slowed from the end of 2001 to the beginning of 2002. However, by spring oil prices had recovered and the rate of growth returned to previous levels (the preliminary economic growth rate for 2002 was 4.3%).

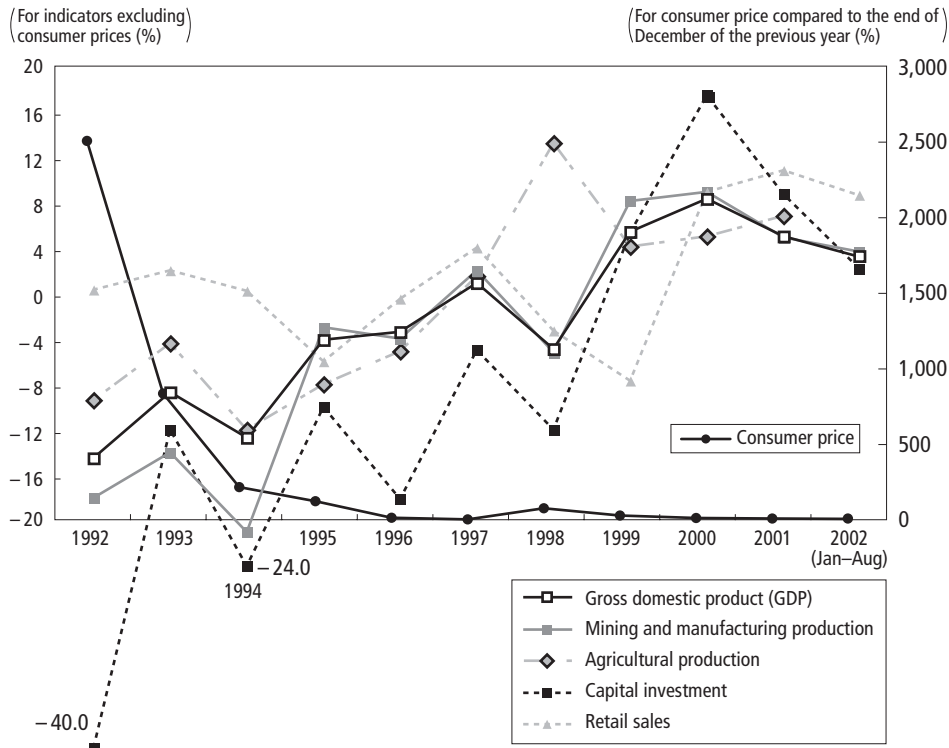
Fiscal income was also strongly positioned in FY2002. The federal budget for FY2002 expected a fiscal surplus and the actual balance came out to be more than the original estimate. Despite a year-on-year rise in expenditures of nearly 20%, the budget for 2003

is also planned to record a surplus. The finances accrued from this surplus are earmarked to pay back some foreign debt (this is due to peak in 2003 at more than US\$17 billion) and a strict repayment of foreign debt is being undertaken.

Russia has also continued its efforts from 2001 to structurally reform its economy. Among these reforms natural monopoly industries (companies monopolizing gas, electricity and railroad businesses) were a cause for concern, and reform bills for electricity and railroads were passed to the State Duma. In addition, efforts have been made in a series of reforms, aiming toward a swift accession to the World Trade Organization (WTO). On the other hand, there are concerns that reforms in the financial and administrative system as a whole are lagging behind schedule.

Recent Economic Indicators for Russia

(Year-on-year change (%))

**(g) Russia's Foreign Relations**

President Putin in 2002 continued to advance vigorous top-level diplomacy. In particular, a cooperative track with Western countries, including the US, has been maintained and at the US-Russia summit meeting in May, the Strategic Offensive Reductions Treaty (Moscow Treaty) was signed and the Joint Declaration on the New Strategic Relationship between the US-Russia was announced. Furthermore, in the fight against terrorism, US-Russia relations can be seen to have entered a new stage, as witnessed by their confirmation of being "allies."

In relations with NATO, at the NATO-Russia Summit Meeting in May, Russia and NATO agreed to establish the NATO-Russia Council (NRC) to respond to the new threats and challenges of the 21st century (the Rome Declaration). This decision made the participation of Russia in NATO's decision-making process possible for the time being in nine areas, including the

fight against terrorism. With regard to the enlargement of NATO, to which Russia has in principle not changed its stance of opposition, Russia acquiesced to that decision at the NATO Summit held in November.

In addition, at the G8 Kananaskis Summit in June, it was decided that Russia would host the G8 Summit in 2006.

Concerning relations with the countries of the Commonwealth of Independent States (CIS),³⁴ in September relations with Georgia became tense over the handling of a group of Chechen armed insurgents residing in the Georgian territory in the Pankisi Gorge. In relations with Belarus, with respect to the process toward the unification of the two states, considerable differences surfaced over the method in which this should be achieved. Subsequently however, their disagreement on this point was resolved at a leaders' summit meeting in January 2003, and it was agreed that a common currency would be introduced from January 2005.

³⁴ CIS is an international organ composed of twelve former republics of the Soviet Union, excluding the three Baltic states.

President Putin has shown an interest in the Asian region. In relations with China, leaders' summit meetings were held in June in Russia and Kazakhstan, and in December when President Putin visited China. This has strengthened military and economic cooperation between the two countries. In addition, President Putin visited the Russian Far East in August and held in Vladivostok his third meeting with Chairman Kim Jong Il of North Korea, making Russia's presence felt in relations with North Korea.

(h) The Situation in the NIS Countries and Japanese Diplomacy

The NIS countries³⁵ have faced various political and economic hardships since their independence, and now, a decade on from independence, the degree of development has become diverse among these countries, depending on their levels of democratization in political and social aspects, and the status of their market economies in economic aspects.

It is in such an environment that in 2002 each country of the NIS developed its own cooperative relationship with their neighboring countries, the US and the countries in Europe. In the Central Asian region, since the series of terrorist attacks in the US, cooperation with the US has been strengthened, particularly in military aspects, and there is now a movement in the region to promote regional cooperation through the Central Asia Cooperation Organization and the Shanghai Cooperation Organization. Moreover, NIS countries in the Caucasia and European region have

been seen to be diplomatically maneuvering with the forthcoming European Union (EU) and NATO enlargement in mind. At the CIS Summit in Moldova in October 2002, although deliberations over improving the efficiency of the organization took place, no consensus could be reached on the direction for cooperation in any area other than counter-terrorism. In 2002, Russia's relations with Georgia and Belarus became tense or cooled somewhat, and Russia has displayed a tendency to prioritize its relations with individual countries in the CIS, rather than promoting its relations with the CIS as a whole.

Based on the changing situation in Afghanistan, Japan dispatched a special envoy of the prime minister to Uzbekistan and Tajikistan and assistance was announced for both countries. In April, Senior Vice-Minister for Foreign Affairs Seiken Sugiura visited the countries of Central Asia. In July, in order to investigate the possibility of energy cooperation, Senior Vice-Minister Sugiura led an investigative mission comprising representatives from industry, academia and government to the regions of Central Asia and the Caucasus. In July, President of the Republic of Uzbekistan Islam Abduganievich Karimov visited Japan while in December, Minister of Foreign Affairs and State Secretary of Kazakhstan Kasymzhomart Tokayev visited Japan. Through these visits, efforts have been made to enhance relations with each country. Each of these countries has praised and thanked Japan for its Silk Road diplomacy and has expressed the hope that their relations with Japan will continue to be enhanced.

³⁵ The 11 countries which became independent upon the collapse of the Soviet Union in 1991, excluding Russia and the three Baltic states.