

## E The Russian Federation, Central Asia, and the Caucasus

### Overview

In March 2004 Russian President Vladimir Putin appointed Mikhail Fradkov prime minister and undertook a government reshuffle. Later the same month President Putin was reelected as president, gaining over 70% of the vote. Following a string of terrorist attacks in August and September 2004, the president took steps to further centralize power, including the announcement of a series of political and social reforms aimed at strengthening national unity.

In 2004, close political dialogue between Japan and Russia continued in various forms, including summit meetings and foreign-ministerial talks,<sup>1</sup> on the issue of the conclusion of a peace treaty and on Japan-Russia cooperation in a wide range of fields. Dialogue also took place at various levels, including the Japan-Russia Eminent Persons' Council,<sup>2</sup> which was established to discuss

the future development of relations between the two countries from a broad perspective.

The countries of Central Asia and the Caucasus<sup>3</sup> have now been independent for 13 years, and diversification is being observed in their political and economic development processes. Japan recognizes that the stability and development of these countries are of major importance to the stability of Asia and the Eurasian continent as a whole, including East Asia. It has therefore given active support to these countries' nation-building efforts. In particular then Japanese Minister for Foreign Affairs Kawaguchi Yoriko visited four Central Asian countries in August 2004 with a view to strengthening dialogue with the whole Central Asian region. Her visit set up the "Central Asia plus Japan" Dialogue as a framework for dialogue between Japan and Central Asia as a whole, and then Foreign Minister Kawaguchi took part in the first foreign-ministerial talks in this context.

### 1 The Russian Federation

#### (a) Japan-Russia Relations

##### *The Northern Territories Issue and Peace-treaty Negotiations*

The biggest outstanding issue between Japan and Russia is the conclusion of a peace treaty. Japan has been tenaciously engaged in negotiations with Russia, in line with a consistent policy of concluding a peace treaty with Russia through resolving the issue of the territorial title of the Four Northern Islands, which are inherently Japanese.

At the Japan-Russia summit talks on the occasion of the Sea Island Summit in June 2004, it was agreed that President Vladimir Putin would visit Japan in early 2005. At the same time, Prime Minister Koizumi Junichiro noted that 2005 was an important milestone in the history of Japan-Russia relations, marked by the

150th anniversary of the establishment of diplomatic relations between the two countries.<sup>4</sup> He went on to emphasize that it was the mission of the two leaders to take forward the peace-treaty negotiations in the run-up to this historical landmark. President Putin confirmed that it was necessary to resolve the territorial question and conclude a peace treaty.

In September 2004 Prime Minister Koizumi observed the Four Northern Islands from a ship, becoming the first incumbent prime minister to do so. Prime Minister Koizumi emphasized that the Northern Territories issue had great importance for the whole country and that the conclusion of a peace treaty was of mutual benefit to Japan and Russia. On the Russian side, Minister for Foreign Affairs Sergey Lavrov stressed the importance of relations with Japan and the need to conclude a peace treaty on the basis of a resolution of the territorial issue in a

1. Examples are the Japan-Russia Summit Meeting on the occasion of the Sea Island Summit in June 2004, the visit to Russia in the same month of then Foreign Minister Kawaguchi, and the Japan-Russia Summit Meeting and Foreign Ministers' Meeting at the Asia-Pacific Economic Cooperation (APEC) forum in Chile in November 2004.

2. The Japanese co-chairman of the group is former Prime Minister Mori Yoshiro. The council's first meeting was held in Moscow in April 2004.

3. "Central Asia" denotes Kazakhstan, Uzbekistan, Turkmenistan, the Kyrgyz Republic, and Tajikistan. "Caucasus" denotes Georgia, Azerbaijan, and Armenia.

4. The Japan-Russia Treaty of Commerce, Navigation and Delimitation (The Shimoda Treaty) was signed between the Tokugawa shogunate and imperial Russia in 1855.

Russian television program in November. At the same time, while stating that Russia considered itself bound by the Japan-Soviet Joint Declaration of 1956,<sup>5</sup> he pointed out that the transfer of two of the islands to Japan would be a final settlement of the issue under the declaration. President Putin expressed his support for the foreign minister's statement the following day.<sup>6</sup>

At the Japan-Russia foreign ministerial talks on the occasion of the APEC Ministerial Meeting held in Chile in November 2004, Minister for Foreign Affairs Machimura Nobutaka reiterated the importance of concluding a peace treaty on the basis of resolving the territorial issue in accordance with the 1993 Tokyo Declaration.<sup>7</sup> At the Japan-Russia summit talks held during the APEC Economic Leaders' Meeting, with President Putin's visit to Japan in mind, the leaders of the two countries agreed to energetically continue consultations at every level, including mutual visits of foreign ministers. Following this, Foreign Minister Machimura visited Russia in January 2005. At the foreign ministerial meeting held on that occasion, the ministers confirmed that although there is a gap between the two countries' positions on the Northern Territories issue, they would continue to make efforts to bridge their respective positions and to narrow the gap through serious discussions, and to continue to negotiate vigorously on this issue toward President Putin's visit to Japan.

### **Japan-Russia Economic Relations**

Economic relations between Japan and the Russian Federation have continued to expand due to favorable conditions, including the strong performance of the Russian economy and increased interest in business with Russia



*Prime Minister Koizumi meets with Russian President Putin on the occasion of the APEC Economic Leaders' Meeting in November. (Photo: Office of the Cabinet Public Relations, Cabinet Secretariat)*

on the part of Japan's private sector. Bilateral trade in 2004 increased by some 50% from the previous year in US-dollar terms, reaching nearly US\$9 billion, which marked the highest volume ever, including the Soviet Union era.

The Japanese government has worked to solve problems facing Japanese private-sector enterprises in doing business with Russia through various intergovernmental consultations. In June 2004 the government formally initiated the work of the Japanese side of the Japan-Russia Trade and Investment Promotion Organization, which supports business activities by providing information on companies and business practices. The work of the seven Japan Centers located in Russia is a further aspect of the government's activities in this field. As part of its support for economic reforms in Russia, the Japanese government organizes courses related to management, training programs in Japan, and Japanese-language courses through the Japan Centers. The centers

5. 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 handed over to Japan after the conclusion of a peace treaty, and that Japan and the Soviet Union will continue peace treaty negotiations.

6. The gist of President Putin's answer to a question concerning the Northern Territories issue at a press conference for Russian and foreign journalists on December 23, 2004, is as follows: "The relationship with Japan is developing in a very satisfactory manner, but the peace treaty issue has not been resolved to date. The 'removal' of any problem that stands in the way of the development of our relations would serve both countries' national interests. Foreign Minister Lavrov did not propose (to transfer) the islands. It is rather peculiar that Japan is seeking the handover of the Four Islands while ratifying the 1956 Declaration. Article 9 of the declaration reads that the conclusion of a peace treaty is a condition for the transfer of the two islands and it can clearly be understood that this resolves all territorial disputes."

7. 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."

are also used in initiatives such as business matching and Japanese-language courses as part of the government's support for promoting Japan-Russia economic exchange.

There continues to be an active exchange between Japan and Russia in the private sector as well.<sup>8</sup>

In the area of energy, Sakhalin-1 and Sakhalin-2 projects have been making progress with the participation of Japanese companies. In the case of Sakhalin-1, operations are underway to start oil production in 2005. (Potential buyers of natural gas are currently being sought.) At Sakhalin-2, oil production is at present restricted to the summer months, while year-round oil production is scheduled to start in 2006, and natural-gas production in 2007. As regards the Pacific Pipeline Project, at the end of 2004 the Russian government issued an order concerning the construction of the pipeline from Taishet in East Siberia to Perevoznaya on the Pa-

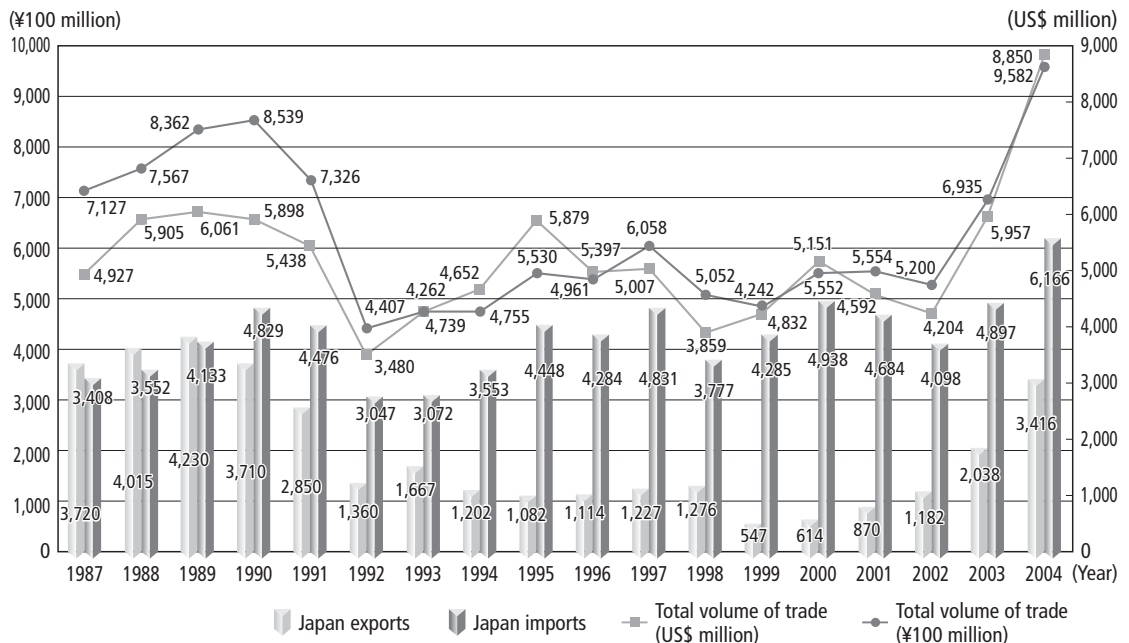
cific seaboard. Japanese and Russian experts are due to examine concrete forms of cooperation in this area.

### *Japan-Russia Cooperation in Various Other Fields*

Wide-ranging cooperation on the basis of the "Japan-Russia Action Plan"<sup>9</sup> continued in 2004. In the area of political dialogue, nearly 70 members of Japan's Diet visited Russia in total, and various groups from Russia, including a mission from the ruling "United Russia" party, visited Japan.<sup>10</sup> The Japan-Russia Eminent Persons' Council met in April to discuss potential cooperation between Japan and Russia in such areas as security, economy, and people-to-people exchange.

Exchanges in the fields of defense and security included a visit by a Russian naval vessel to the port of Kure in Hiroshima Prefecture, a Japan-Russia Search and Rescue Exercise (September), and a visit to Russia

### Japan-USSR/Russia Trade



Source: Ministry of Finance trade statistics

Notes: 1. Japan's trade with Russia reached a record volume in 2004, surpassing the ¥853.9 billion in the peak year of trade with the Soviet Union.

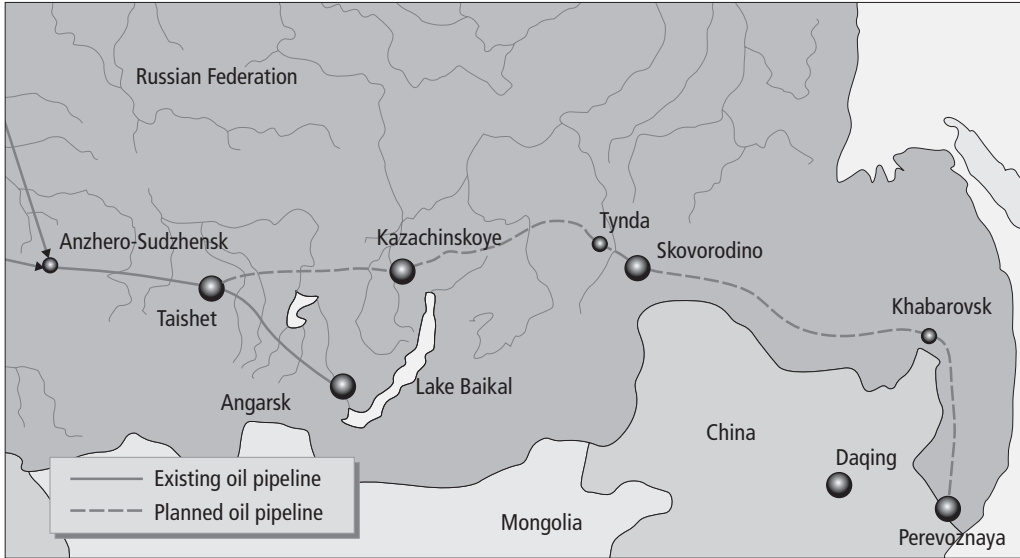
2. Total volume of trade in 2004 rose by 38% over the year before. (In US-dollar terms, total trade was US\$8.85 billion, an increase of 48% over the year before.)

8. Numerous missions to Russia have been organized by private-sector economic organizations, including the Japan-Russia Business Cooperation Committee of Nippon Keidanren (Japan Business Federation). From Russia a mission headed by Sergei Kirienko, Presidential Plenipotentiary Envoy to the Volga Federal District, visited Japan with many representatives of Russian companies. On this occasion, concrete discussions on future cooperation were held by Japanese and Russian businesspeople.

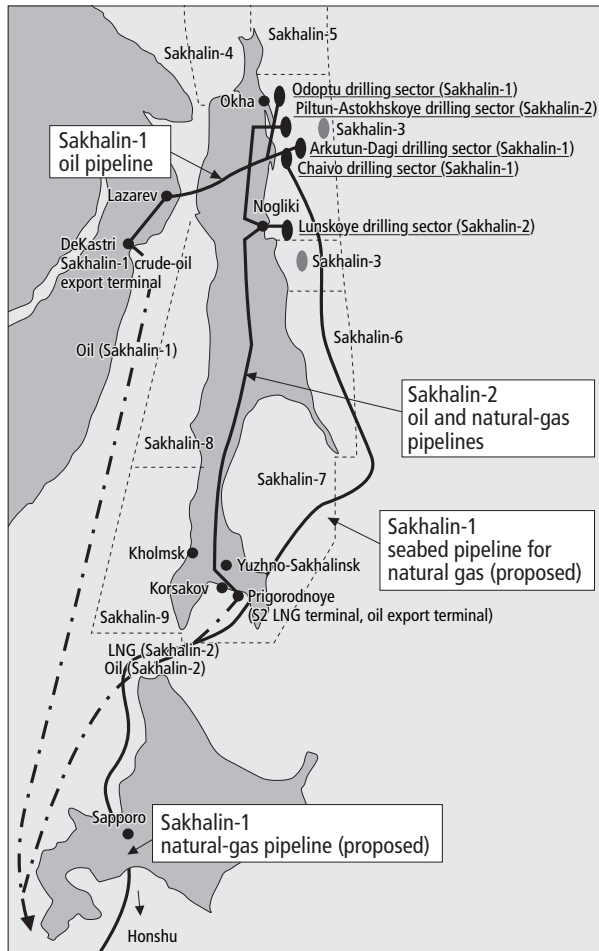
9. During Prime Minister Koizumi's visit to Russia in January 2003, he and President Putin reviewed past Japan-Russia cooperation over a broad range of fields and mapped out a general direction of future cooperation. The results were embodied in the "Japan-Russia Action Plan," which deals with six principal areas: peace-treaty negotiations; deepening of political dialogue; cooperation in the international arena; trade and economic cooperation; development of relations in the areas of defense and security; and enhancement of cultural and people-to-people exchange.

10. Missions led by Federation Council members Viktor Ozerov and Valentina Petrenko, respectively, also visited Japan.

Map of Pacific Pipeline



Map of Sakhalin Projects (Sakhalin-1 to Sakhalin-9)



by the Commanding General of the Northern Army of Japan's Ground Self-Defense Force (November).

In the area of nuclear non-proliferation, as the first project under the "Star of Hope" program to dismantle decommissioned Russian nuclear submarines, the dismantlement of a Victor-III class submarine was completed in December 2004.

In the area of counter-terrorism cooperation, the 3rd Japan-Russia Consultations on Counter-Terrorism were held in December. Following the hostage incident at a school in North Ossetia in September, Japan provided emergency grant aid of US\$100,000 through the International Federation of Red Cross & Red Crescent Societies (IFRC).

In the area of cultural and interpersonal exchanges, such programs as the 4th Japan-Russia Forum, held in Kanazawa in October 2004, and the Japan-Russia Youth Exchange Program<sup>11</sup> made major contributions to the expansion of the range of Japan-Russia exchange. In the framework of the Youth Exchange Programme, as many as 155 young people from Japan and Russia participated either in invitation or visit programs in 2004. Commemorating the 150th anniversary of the establishment of diplomatic relations between the two countries, various programs are scheduled to be carried out in Japan and Russia from January 2005.

## (b) The Situation in Russia

### *Domestic Politics*

Following the ruling "United Russia" party's overwhelming victory in State Duma elections held in December 2003, President Putin carried out a major cabinet reshuffle. In February 2004 he dismissed Prime Minister Mikhail Kasyanov, who had held the post for four years, and appointed Mikhail Fradkov, the representative of the Russian Federation to the European Commission, as the new prime minister in March. The size of the cabinet was reduced by nearly half in the reshuffle. On March 14 President Putin was decisively reelected, receiving some 71% of the votes cast. Thus he embarked on his second term of office with a strengthened political base.

At the same time, terrorist attacks linked to the Chechen issue appear to have intensified. Of particular note was the assassination of President Akhmad Kady-

rov of the Chechen Republic in a May 2004 bombing. The situation remained tense following this incident. A number of terrorist attacks were carried out before and after the Chechen presidential elections held in August, including the bombing of two airliners, a suicide bombing outside a Moscow subway station, and the hostage incident at a school in the North Ossetian town of Beslan. After these terrorist acts President Putin proposed a series of reforms of the political system aimed at strengthening state governance. One of these proposals was passed in December. This bill abolished direct election of provincial governors and other heads of constituent entities of the Russian Federation and practically made them appointees of the president, further expanding the powers of the president.

### *Russian Economy*

In 2004 the Russian economy maintained the high growth rate from the previous year (gross domestic product [GDP] increased by 7.1% over the year before), principally due to consistently high global oil prices. In his statement made in 2003 to the Federal Assembly, President Putin referred to the goal he set for the government in a statement made a year ago, doubling GDP over the next 10 years, and said that if the recent favorable economic conditions continued, this goal could be achieved even before 2010.

In the area of economic reform, it has been pointed out that structural reform is stagnant. The subject that has drawn international attention was the Russian oil giant Yukos. Yukos, which was imposed a huge additional tax by the authorities and ordered to take such severe measures as the sale of its core subsidiary in December, was on the point of bankruptcy. This subsidiary was practically purchased by the state-owned oil company, Rosneft.

## (c) Russia's Foreign Relations

President Putin again pursued energetic summit-level diplomacy in 2004. He held summit talks with US President George W. Bush in June and November, discussing Iraq and other international issues, as well as bilateral issues.

As regards Russia-European Union (EU) relations, Russia signed a protocol on EU enlargement in April. At

11. At the summit meeting held in Moscow in November 1998, then Prime Minister Obuchi Keizo and then Russian President Boris Yeltsin agreed on the need for a sweeping expansion of interpersonal exchange between the two countries. In March 1999 the Japan-Russia Youth Exchange Committee was set up as an international organization based on the bilateral agreement. In May of the same year the Japan-Russia Youth Exchange Center was opened in Tokyo to serve as the committee's secretariat. The Japan-Russia Youth Exchange Committee has three principal activities: (1) inviting young Russians to Japan and dispatching young Japanese to Russia; (2) fellowships for young Japanese and Russian researchers; and (3) support for dispatching Japanese-language instructors to Russia. From the inception of the committee's activities in July 1999 up to December 2004, a total of 1,571 persons had participated in its exchange programs.

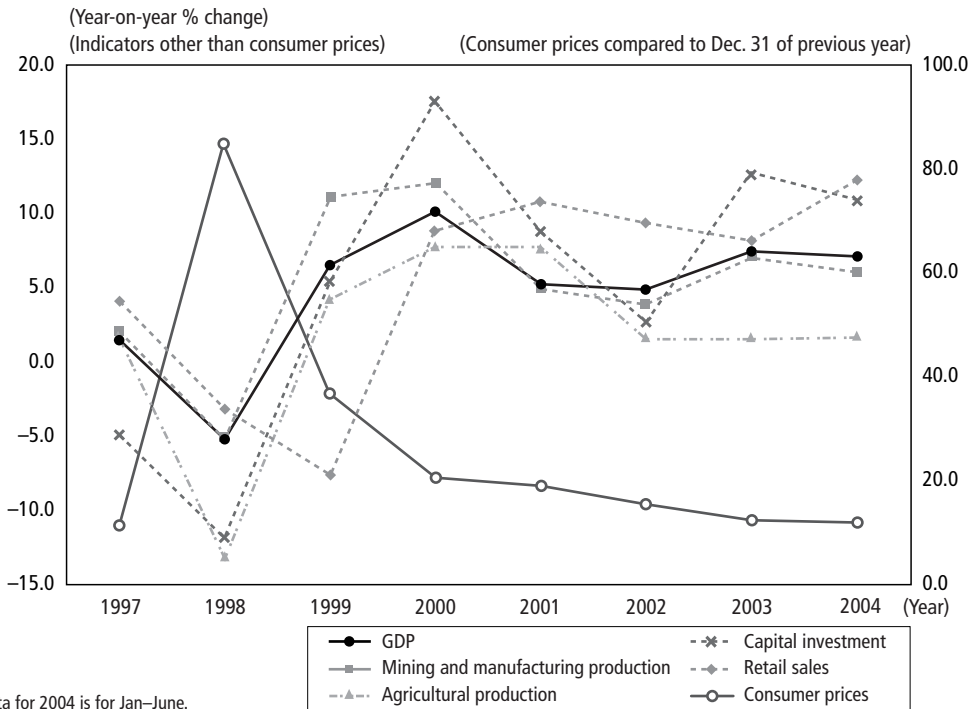
the Russia-EU summit meeting in May, a settlement was reached in the bilateral negotiations concerning Russia's accession to the World Trade Organization (WTO). On that occasion President Putin stated that he would speed up the procedures for ratification of the Kyoto Protocol. In October the Russian State Duma passed the bill ratifying the protocol, and the president signed it in November.

President Putin visited China in October. The fruits of his visit were the final settlement of the negotiations on definition of national borders as well as settlement of the bilateral negotiations concerning Russia's accession

to the WTO. Russia also took a positive stance with respect to Asian diplomacy, such as through a visit by President Putin to India and Turkey in December.

Russia strengthened its presence in the Commonwealth of Independent States (CIS),<sup>12</sup> becoming a member of the Central Asian Cooperation Organization (CACO) in October (other CACO members are Kazakhstan, Uzbekistan, Kyrgyz, and Tajikistan). In the Ukrainian presidential elections held from October to December, Prime Minister Viktor Yanukovych, the candidate whom Russia in effect supported, suffered defeat in a rerun of the election.

**Recent Economic Indicators for Russia**



Note: Data for 2004 is for Jan-June.

**2 Central Asia and the Caucasus**

Some 13 years after gaining independence, politico-economic diversification is proceeding in the countries of the Central Asia and the Caucasus. The Caucasus countries of Azerbaijan and Georgia are now in the process of transition to a new generation of leaders. The presidents of the Central Asian states of the Kyrgyz Republic, Tajikistan, Kazakhstan, and Uzbekistan are approaching the end of their terms of office, and presidential elections

will soon be held. While on the economic front the keynote is recovery and growth, economic disparities appear to be widening between countries with energy resources and those without.

After Georgia's "Rose Revolution" in 2003, newly elected President Mikheil Saakashvili took a strong reforming stance, including on the eradication of corruption. At the same time he pledged to unite the country

12. The CIS consists of the 12 former members of the Soviet Union, excluding the three Baltic states.



*Then Foreign Minister Kawaguchi at a joint press conference following the "Central Asia plus Japan" Dialogue/Foreign Ministers' Meeting in August.*

and resolve the question of the growing tendency toward separatism in Abkhazia, South Ossetia, and Ajaria. In May 2004 Ajaria was effectively brought under central-government control, but the situation surrounding Abkhazia and South Ossetia remains opaque.

China and Russia took active steps in relation to regional cooperation in Central Asia. These included the Shanghai Cooperation Organization Summit Meeting held in Tashkent (Uzbekistan) in June 2004, and Russia's accession to the Central Asian Cooperation Organization (CACO).

Since establishing diplomatic relations with the countries of Central Asia and the Caucasus in 1992, Japan has recognized their geopolitical importance in view of the fact that they border Russia, China, South-west Asia, and the Middle East and are rich in energy resources. Japan believes that the countries' stability and development are of utmost importance for the stability and prosperity of the Eurasian continent as a whole. From this standpoint, Japan has worked to strengthen its relations with these countries within the framework

of its "Silk Road Diplomacy" initiatives. The three pillars of this program of active assistance for these countries' nation-building efforts through support aimed at facilitating transition to a market-oriented economy and democracy are: (1) political dialogue; (2) economic cooperation and cooperation in the development of natural resources; and (3) cooperation for promoting and maintaining peace.

In order to take these initiatives to the next stage, then Minister for Foreign Affairs Kawaguchi Yoriko visited the four Central Asian countries of Uzbekistan, Kazakhstan, Tajikistan, and the Kyrgyz Republic in August 2004. In the course of her tour, she gave speeches outlining the government's new policy of continuing to enhance bilateral relations with the countries of Central Asia and at the same time promoting dialogue to advance cooperative relations within the region. In this context she initiated "Central Asia plus Japan" Dialogue as a framework for dialogue between Japan and Central Asia as a whole and took part in the first foreign-ministerial talks. It is Japan's policy to actively engage in strengthening its relations with the region through this framework.

In January 2005, Japan opened an embassy in Turkmenistan. Japan now has diplomatic missions in all of the five Central Asian countries. In the same month the Japanese embassy in Kazakhstan was relocated from Almaty to the new capital of Astana.

Apart from then Foreign Minister Kawaguchi's visit, high-level exchanges with the countries of Central Asia included the visit to Japan of Kyrgyz Foreign Minister Askar Aitmatov (January), the visit to Uzbekistan of Japan's Parliamentary Secretary for Foreign Affairs Matsumiya Isao (March), the visit to Japan of then Kyrgyz President Askar Akaev (April), and the visit to Kazakhstan of Japan's former Prime Minister Hashimoto Ryutaro (May).