

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

### Overview

In the Russian Federation, President Vladimir Putin has been sustaining a stable political footing during his second term, against a backdrop of favorable conditions such as a robust economic outlook. In the area of diplomatic relations, developments such as sustained cooperative relations with Western countries, a movement toward the strengthening of influence over countries of the Commonwealth of Independent States (CIS), and a stance of placing emphasis on the Asia-Pacific region have been witnessed.



Prime Minister Junichiro Koizumi and Russian President Vladimir Putin signing the Action Program on Cooperation in the Area of the Fight Against Terrorism (November 21 at the Prime Minister's Official Residence. Photo: Cabinet Public Relations Office, Cabinet Secretariat)

The year 2005 marked the 150th anniversary of the establishment of diplomatic relations between Japan and Russia. At the Japan-Russia Summit Meeting held in November during President Putin's official visit to Japan, an agreement was made to find a solution to the issue of a peace treaty that is acceptable to both countries. It was also agreed upon by both sides to further strengthen cooperation in a wide range of areas in accordance with the "Japan-Russia Action Plan" through such steps as the signing of 12 documents on issues including terrorism and energy.

In the 14 years since their independence, political and economic diversification among the countries of Central Asia and the Caucasus<sup>1</sup> has progressed, although the economic disparity between countries that have leveraged their abundant energy resources to achieve economic success and those that do not have the resources has widened. From the perspective that the stability and development of these countries is of vital importance for the stability of the entire region of Eurasia including East Asia, Japan has been actively involved in supporting nation-building efforts based on the principles of democratization and market-oriented economic reforms. For Central Asia in particular, Japan has also been engaged in dialogue and cooperation with the entire region through the framework of the "Central Asia plus Japan" dialogue initiative that was established in August 2004.

### 1 The Russian Federation

#### (a) Japan-Russia Relations

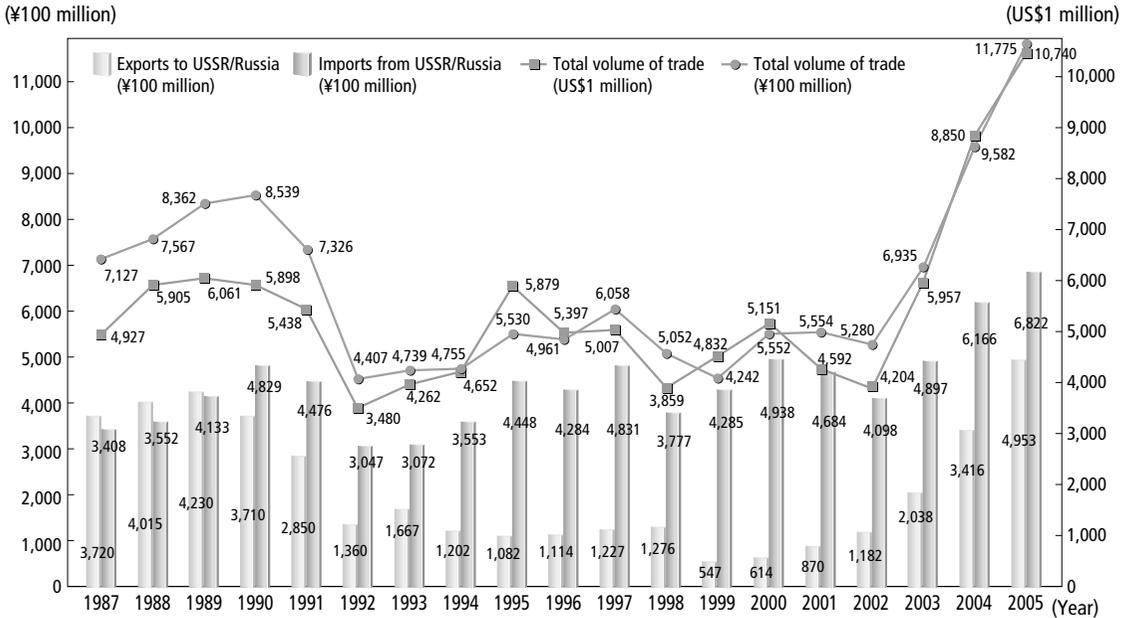
##### (1) The Northern Territories Issue and Peace Treaty Negotiations

Regarding the issue of the Northern Territories, which is the biggest outstanding issue between Japan and Russia, there still remains a gap between the stances adopted by the two countries even after 60 years since the end of World War II. The Government of Japan maintains a consistent policy of seeking to fully normalize relations between Japan and Russia through the conclusion of a peace treaty by resolving the issue of which country the Four Northern Islands, which are inherently Japanese, belong to, and has been tenaciously engaged in negotiations with Russia.

In the year 2005, reciprocal visits, namely Minister for Foreign Affairs Nobutaka Machimura's visit to Russia in January and Russian Minister for Foreign Affairs Sergei Lavrov's visit to Japan in May, were conducted as a precursor to President Putin's visit in November. Earnest discussions were carried out with the intent to fill the gap between the two countries over the territorial issue. Talks were also continued at the summit and foreign-minister levels at such occasions as the G8 Gleneagles Summit, the United Nations (UN) General Assembly, and the Asia-Pacific Economic Cooperation (APEC) meetings. On the other hand, a hard-line attitude was witnessed regarding the territorial issue prior to President Putin's visit to Japan, marked by a series of visits by key figures from the

1. "Central Asia" denotes the five nations of Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and the Kyrgyz Republic. "Caucasus" denotes the three nations of Georgia, Azerbaijan, and Armenia.

Trends in the Japan-USSR/Russia Trade



- Japan's trade with Russia surpassed ¥1 trillion in 2005, an unprecedented figure including the Soviet period.
- Total volume of trade in 2005 rose by 23% over the previous year. (In US-dollar terms, total trade was US\$10.74 billion, an increase of 22% over the previous year.)

Note: Figures for the total volume of trade are rounded off, due to which they may not necessarily match with the total figures for export and import.

Source: Ministry of Finance, *Trade Statistics*.

Russian government to the Four Northern Islands, and President Putin's remarks during an appearance on a Russian television program in September to the effect that the sovereignty of the Four Islands lying with Russia is confirmed by international law and is an outcome of World War II, and that Russia has no intention to engage in discussions regarding this issue.<sup>2</sup> The Government of Japan countered this with a repeated assertion of the consistent position adopted by Japan.

At the summit meeting in November when President

Putin visited Japan after nearly five years, Prime Minister Junichiro Koizumi once again laid stress on the crucial importance and validity of the various agreements and documents signed to date, such as the Japan-Soviet Joint Declaration,<sup>3</sup> Tokyo Declaration,<sup>4</sup> and the "Japan-Russia Action Plan,"<sup>5</sup> and the need to continue with negotiations regarding the conclusion of a peace treaty based on these various documents. Prime Minister Koizumi also declared the shared understanding of both countries that the issue of the attribution of the Four Islands ought to be resolved

2. In the television address, President Putin also stated that "in case of good intentions, and Russia has the best intentions in mind, I expect us all to be able to always draw out an option (translator's note: option for the resolution of the territorial issue) that satisfies both parties, and which furthermore is satisfactory to the residents of the said region and in the best interests of all citizens of Russia as well as Japan, and I am convinced that this is possible. As long as we are willing to work together, I believe it is possible to come upon such an option."

3. After the Soviet Union refused to sign the San Francisco Peace Treaty, negotiations for the conclusion of a separate peace treaty were conducted between Japan and the Soviet Union from June 1955 to October 1956. However, there was no progress on an agreement between the two sides over the territorial issue except in regard to the islands of Habomai and Shikotan. Due to this, the two countries signed the Japan-Soviet Joint Declaration on October 19, 1956 instead of a peace treaty, declaring an end of the state of war and restoring diplomatic and consular relations between the two nations (the agreement was ratified by the parliaments of both countries). Article 9 of the declaration states the agreement to the effect that the parties will continue negotiations for the conclusion of a peace treaty, and that the islands of Habomai and Shikotan will be handed over to Japan after the conclusion of a peace treaty.

4. The Tokyo Declaration was signed by Prime Minister Morihiro Hosokawa and Russian President Boris Yeltsin in October 1993 during the visit of President Yeltsin to Japan. Article 2 of the declaration defines the territorial issue as referring to the attribution of the Four Northern Islands and clearly states that the attribution of the Four Islands will be resolved, a peace treaty concluded, and bilateral relations fully normalized, in this order. It also set down clear negotiation guidelines, namely that the Northern Territories issue will be resolved: (a) on the basis of historical and legal facts; (b) based on documents produced with the two countries' agreement; as well as (c) on the principles of law and justice.

5. The Japan-Russia Action Plan was adopted between Prime Minister Koizumi and President Putin during Prime Minister Koizumi's visit to Russia in January 2003. It consists of the six pillars to deepen political dialogue; peace treaty negotiations; 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.

and a peace treaty concluded at the earliest possible stage, and asserted the intention to continue efforts in searching out a solution that is acceptable to both parties. Asserting that the absence of a peace treaty is a roadblock to progress in Japan-Russia relations, President Putin declared the resolution of the issue to be a responsibility for both sides. Both leaders agreed to continue efforts in searching out a resolution that is acceptable to both countries based on the various agreements and documents signed to date. Prime Minister Koizumi received an invitation from President Putin to visit Russia.

## (2) Japan-Russia Economic Relations

Economic relations between Japan and the Russian Federation are continuing to expand due to favorable conditions, including the strong performance of the Russian economy and increased interest in business with Russia on the part of Japan's private sector. Bilateral trade in 2005 reached approximately US\$10.7 billion, marking the highest volume ever, including the Soviet era, as in the previous year. In addition, a number of Japanese corporations got into the Russian market, a trend marked by the decision of Toyota Motors in April to set up a plant in St. Petersburg.

During the visit to Japan by President Putin in November, the "Japan-Russia Economic Cooperation Forum"<sup>6</sup> was held with the participation of representatives from the business communities of both countries, where an exchange of opinions was conducted on the possibility of expanding economic exchange between Japan and Russia.

The Government of Japan has worked to solve problems faced by private enterprises in doing business with Russia through inter-governmental consultations, such as the Seventh Meeting of the Japan-Russia Inter-Governmental Commission on Trade and Economic Issues held in Tokyo in April. It has also been supporting business activities by providing information on companies and business practices through the Japan-Russia Trade and Investment Promotion Organization.<sup>7</sup>

The Government of Japan provides consistent support to the Russian economic reforms through the seven Japan Centers located in Russia, where it provides technical assistance in the form of organizing courses related to management, training programs in Japan, and Japanese language courses. Among other functions, the centers also act as the local offices of the Japanese side of the aforementioned Japan-Russia Trade and Investment Promotion Organization in Russia.

Map of Pacific Pipeline



6. The forum was organized by Nippon Keidanren and other organizations, and was attended by approximately 500 people, including business leaders from both Japan and Russia. President Putin also attended the forum, and gave a speech regarding the expansion of economic exchange between Japan and Russia.

7. The Japan-Russia Trade and Investment Promotion Organization was established with the purpose of expanding and deepening trade and investment activities between Japan and Russia. Its functions include providing information, consultation, and support for the settlement of disputes. The Japanese part of the organization has been active since June 2004, and overall operations have been initiated by establishing the Russian part of the organization in April 2005.

In the area of energy, the Sakhalin-1 and Sakhalin-2 projects, petroleum and natural gas development projects in which Japanese companies are participating, have been making progress. Regarding the “East Siberia-Pacific” pipeline project for transporting crude oil from Siberia to the Pacific coast, in relation to the Japan-Russia cooperation for the speedy and complete materialization of the project, the leaders from both countries agreed during President Putin’s visit to Japan in November to work toward reaching mutual understanding between both governments at the earliest possible stage in 2006, and signed a document pertaining to the issue. Based on this development, relevant discussions are being conducted between experts from Japan and Russia.

### *(3) Japan-Russia Cooperation in Various Other Fields*

Wide-ranging cooperation on the basis of the “Japan-Russia Action Plan” continued in 2005.

In the fields of defense and security, active dialogues and exchanges were conducted in the form of a visit by the Chief of Staff of the Joint Staff Office of the Japanese Self-Defense Forces (SDF) to Russia (May), a visit by the Commander of the Russian Far East Military District Colonel-General to Japan (June), a visit by a Japan Maritime Self-Defense Force (MSDF) vessels to Russia,<sup>8</sup> a visit by the Head of the Russian Border Service to Japan (September), and a visit by the Minister of State for Defense of Japan to Russia (January 2006). In August, when a small Russian Navy submarine got in distress off the Kamchatka peninsula, a MSDF vessel was dispatched as part of a Japan Disaster Relief Team in response to a request from the Russian Navy. In addition, it has also been decided between the two countries to initiate discussions for the conclusion of a Mutual Legal Assistance Treaty from the year 2006.

In the area of cultural and interpersonal exchanges, the year 2005 marked the 150th anniversary of the establishment of diplomatic relations between Japan and Russia, and several commemorative events were held in both countries to celebrate the occasion. In Japan, a commemorative ceremony was organized by the government in April at Shimoda, which was followed by a ship tour in June where youth from both countries stayed on board and visited memorable sites connected with the Japan-Russia relationship such as Vladivostok, Hakodate, and Shimoda. In addition to this, approximately 120 commemorative events were also conducted by local governments and private sector groups.

During the visit by President Putin in November, apart from the signing of a document by both the heads of state regarding the fight against terrorism, in the area of denuclearization cooperation a document was signed for implementing arrangement for the dismantling of five decommissioned Russian nuclear submarines. In addition to these, a number of documents were signed regarding the strengthening of cooperation in a series of areas such as tourism, Information and Communications Technology (ICT), and the simplification of visa procedures based on the Japan-Russia Action Plan.

## **(b) Situation in Russia**

### *(1) Domestic Politics*

In 2005, President Putin continued with a stable management of the government backed by high approval ratings.

Seizing the occasion of the year 2005, which marked the 60th anniversary since the end of World War II, where the Soviet Union won a victory after making tremendous sacrifices, a large-scale commemorative event was organized on May 9 in Moscow. The ceremony, which was conducted in “the spirit of remembrance and reconciliation,” as decided upon by a resolution of the UN General Assembly, was attended by heads of state and representatives from over 50 countries and international organizations, including Prime Minister Koizumi, and received considerable attention both inside and outside Russia.

In terms of the initiatives to reform the social system, a law changing benefits such as the charge-free use of public services, which had so far been enjoyed by pensioners, to a cash-allowance system was brought into force in January. It brought on the first large-scale nationwide protests witnessed under the administration of President Putin. These protests were quelled by the advanced implementation of a raise in pensions. In October, President Putin announced a large-scale social reform plan, “Priority National Projects” covering the four areas of healthcare, education, housing and construction, and agriculture. Citing the need to strengthen government functions for the promotion of these projects as the reason, President Putin carried out a series of reshuffles, such as the appointment of the Chief of Staff of the Presidential Executive Office Medvedev as the First Deputy Prime Minister.

In December, a legal amendment was made regarding non-profit organizations (NPOs) conducting activities in Russia (the amendment was signed by President Putin in January 2006). This was done for purposes such as preventing terrorist activities, etc.,

8. In addition to visiting Vladivostok and organizing joint exercises on search and rescue missions by the Japan Maritime Self-Defense Force vessel *Hiei* (June), the first-ever visit to St. Petersburg was also organized for the training squadron (July).



Prime Minister Koizumi shaking hands with dignitaries such as US President Bush, Russian President Putin, and Chancellor Schröder of Germany at the commemorative event marking the 60th anniversary of the end of World War II (May 9, Moscow, Russia). Photo: Cabinet Public Relations Office, Cabinet Secretariat

under the cover of NPOs, and the amendment was set to strengthen regulations in particular with regard to organizations where the founder is a foreign national. The move elicited assertions of apprehension from Japan and Western nations at the stage of deliberation for the amendment, leading to a correction in the proposed law.

Regarding the Chechen issue, which is a major issue in Russia's domestic politics, the situation remains tense, with the death of Maskhadov, the leader of the moderate faction of the pro-independence armed groups, during combat with Russian security forces in March, and the

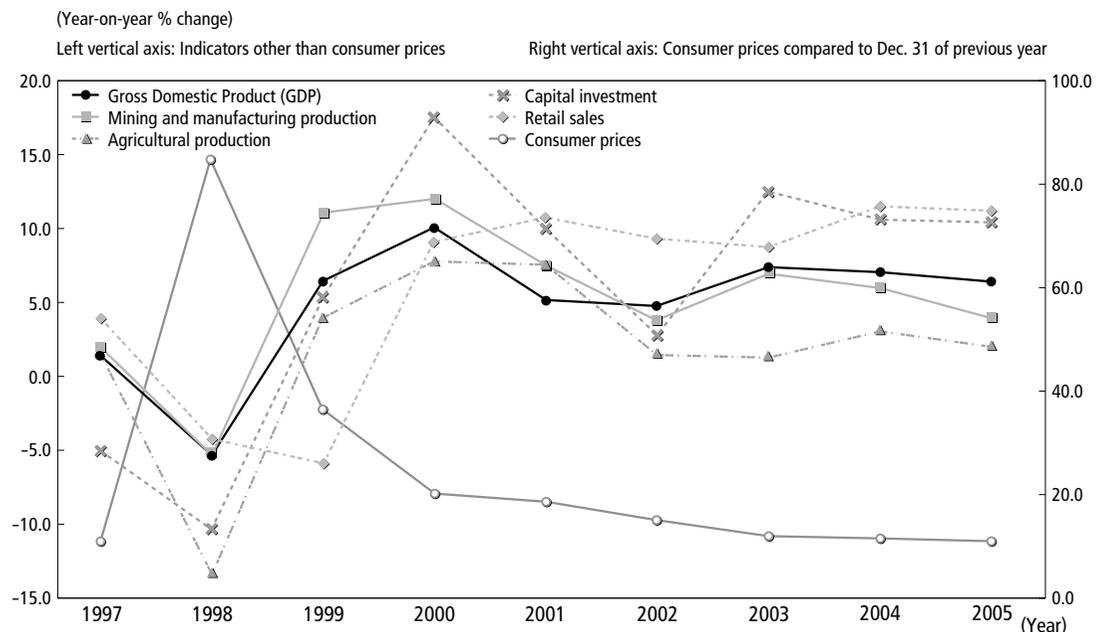
occurrence of attacks by armed groups on security authorities, etc., in October in the Kabardino-Balkaria Republic near Chechnya. On the other hand, in November parliamentary elections were held in the Republic of Chechnya for the first time since 1997, amidst tight security.

## (2) Russian Economy

While the Russian economy showed a slowdown in 2005 as compared to the previous year, it maintained growth for the seventh consecutive year (gross domestic product [GDP] increased by 6.4% over the previous year). The robustness of the economy is owed in large part to the steep rise in the international price of petroleum, and there is no change in the Russian economy's structure of being heavily dependent on the export of energy. The nurturing and development of domestic industries with a focus on manufacturing and high technology solutions, and the development of the regions for strengthening the country's economic infrastructure, has become an issue of focus. In connection with this, the "Federal Law on Special Economic Zones" was adopted (to be enforced from the year 2006), under which six special economic zones have been identified.

Meanwhile, the tendency toward state control over the economy was strengthened through such means as the move to amend the Underground Resources Law to control the access of foreign nationals, the acquisition of

### Recent Economic Indicators for Russia



the private-sector oil company “Sibneft” by the government-owned natural gas company “Gazprom,” and the conviction of Mr. Khodorkovsky, the former president of the oil company “Yukos.”

**(3) Russia’s Foreign Relations**

President Putin continued to pursue energetic summit-level diplomacy in 2005. While maintaining cooperation with Western nations, he also took strong steps toward cooperation and harmony with China and laid emphasis on the Asia-Pacific region. On the other hand, a hard-line stance was witnessed toward neighboring countries regarding such issues as historical perceptions and the price of natural gas. Russia conducted five summit meetings with President Bush of the United States (US), and held discussions on such topics as bilateral issues, international issues, and the domestic situation in Russia. With regard to Europe, Russia-EU summit meetings were held twice, where discussions were held mainly on the roadmap toward materialization of the four “common spaces.”<sup>9</sup> On the other hand, instances of complications to relations with respect to historical perceptions were also witnessed, such as the rejection of a border treaty with Latvia and Estonia.

With regard to relations with the People’s Republic of

China, collaboration was strengthened through the means of four summit meetings, the first-ever joint China-Russia military exercise, and two occasions of foreign ministerial meetings of the three countries of India, China, and Russia. In addition, Russia displayed a motivated stance in its diplomacy in the Asia-Pacific region, as seen by President Putin’s visit to the Republic of Korea (ROK) and Japan in November, the organizing of the first-ever Russia-ASEAN summit in December, and his participation as a guest in the first East Asia Summit (EAS) that was held during the same period, where he once again voiced the willingness to participate in the EAS as a formal member.

Toward the Commonwealth of Independent States (CIS), while on the one hand Russia intimated a substantial rise in the export price of natural gas from 2006 onward for the pro-Western countries of Georgia, Ukraine, and the Republic of Moldova, it also worked toward strengthening relations with other countries, as signified by the signing of an alliance treaty with the Republic of Uzbekistan in November, and proceeding with discussions with the Republic of Belarus toward the creation of a union state through such steps as the preparation of a constitutional document.

**2 Central Asia and the Caucasus**

In the Kyrgyz Republic, beginning with the parliamentary elections in February, the Akaev administration which remained in power over the course of 14 years collapsed, and President Bakiev came into power as the new incumbent. In the Republic of Uzbekistan, violence broke out in May in the region of Andijan. The riots were brought under control with the death of seemingly hundreds of civilians at the hands of security authorities, and the hard line stance of the Karimov administration received international criticism. In addition, in response to the request by the Shanghai Cooperation Organization (SCO) summit, held in July in the city of Astana in the Republic of Kazakhstan, for setting a date for the withdrawal of foreign troops stationed in the territories of member nations in the fight against terrorism in Afghanistan, Uzbekistan called for a complete withdrawal of US forces (the withdrawal was completed in November), and strengthened relations with Russia by the signing of an alliance treaty with Russia.

On the other hand, both the Republic of Azerbaijan,

where the ruling party won a resounding victory in the parliamentary elections of November, and the Republic of Kazakhstan, where the incumbent President Nazarbaev won by a landslide vote in the presidential elections of December, have been managing relatively stable governments while maintaining high economic growth that is buoyed by petroleum production, displaying the increasingly strong trend that the economic disparity between countries blessed with energy resources and those without impacts the political situations of the individual countries in the region.

In the Caucasus countries that suffer from intraregional conflicts, no substantial developments were witnessed on the issues of the secession and independence of the Autonomous Republic of Abkhazia and the Autonomous State of South Ossetia in Georgia and the conflict between Azerbaijan and Armenia over the enclave of Nagorno Karabakh, where intervention efforts were continued by parties such as the Organization for Security and Co-operation in Europe (OSCE).

9. The theme aspiring to create common spaces in the following areas: (1) economy; (2) freedom, security, and justice; (3) external security; and (4) culture and education. This was agreed upon by Russia and the European Union (EU) at the St. Petersburg Summit in May 2003.

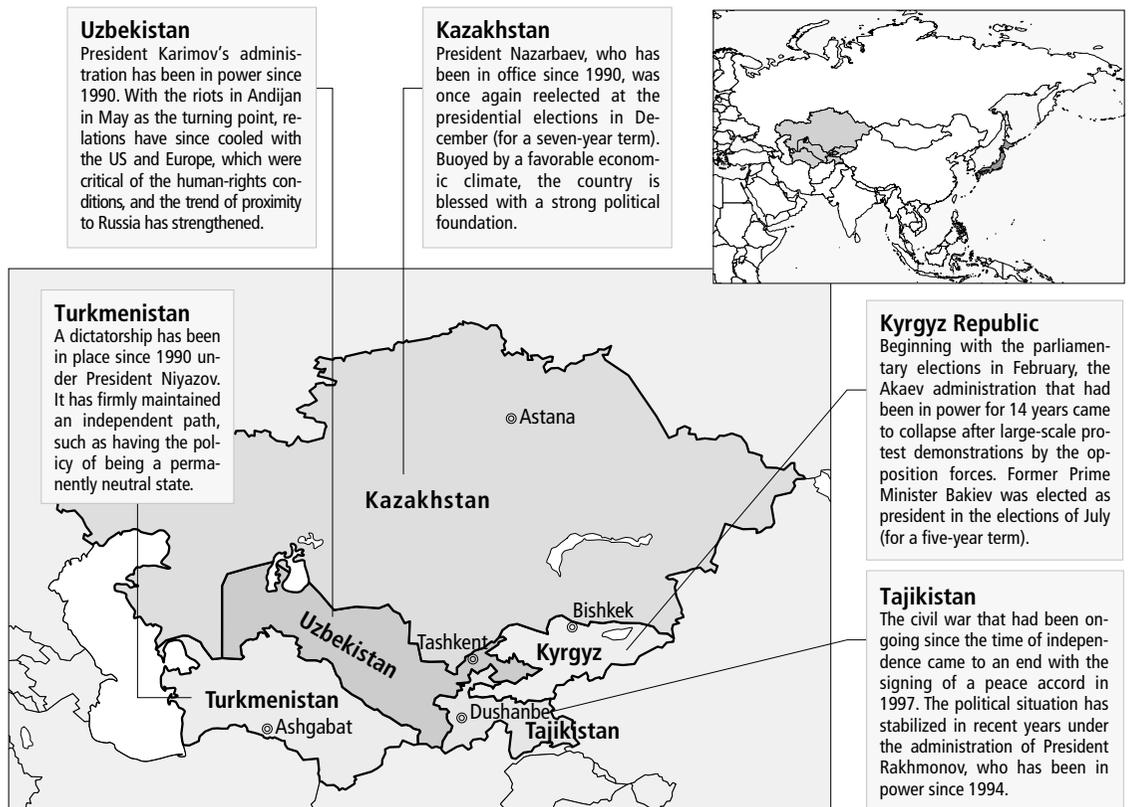
In the movement toward intraregional cooperation, a move toward a new Russia-centric intraregional cooperation was witnessed in the form of the agreement at the Central Asian Cooperation Organization (CACO) summit in October to merge CACO with the Eurasian Economic Community (EAEC) led by Russia,<sup>10</sup> and Uzbekistan's application for membership to the EAEC. On the other hand, Turkmenistan, which is treading an independent path, withdrew from the CIS at the summit in August, and voiced the intention to reduce its level of commitment to that of "associate member."

In March, Japan and the countries of Central Asia held the first Senior Officials Meeting (SOM) of the "Central Asia plus Japan" Dialogue in Tashkent, Uzbekistan. All parties agreed to promote the following as the pillars for future cooperation: (1) political dialogue, (2) intraregional cooperation (in the ten areas of counter-terrorism, drugs, mines, poverty eradication, medical assistance and healthcare, environment, water, energy, trade and investment, and transportation), (3) business promotion, (4) intellectual dialogue, and (5) cultural and

people-to-people exchange. In addition to leveraging this dialogue to promote bilateral relation with the individual countries, it is the policy of Japan to engage in strengthening relations with the region of Central Asia as a whole.

In terms of VIP visits, the following dignitaries paid a visit to Japan as guests at the 2005 World Exposition, Aichi for National Day events: Prime Minister Akhmetov of the Republic of Kazakhstan (June), Prime Minister Margarian of the Republic of Armenia (June), and Deputy Prime Minister Sharifov of the Republic of Azerbaijan (May). From Japan, contact was advanced with the visit by Senior Vice-Minister for Foreign Affairs Aisawa to the Republic of Azerbaijan and Turkmenistan (January), the visit by Parliamentary Secretary for Foreign Affairs Itsunori Onodera to the Republic of Kazakhstan (April), the visit by Parliamentary Secretary for Foreign Affairs Fukushima to the Republic of Kazakhstan and the Kyrgyz Republic (July), and the visit by the official delegation of the House of Representatives led by the Chairman of the Committee on Foreign Affairs Yoshiaki Harada to the Kyrgyz Republic (November).

### Political Situation in Central Asia



10. The formal entry of Uzbekistan was decided at the EAEC summit in January 2006. EAEC comprises the six member countries of Russia, Belarus, Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan.