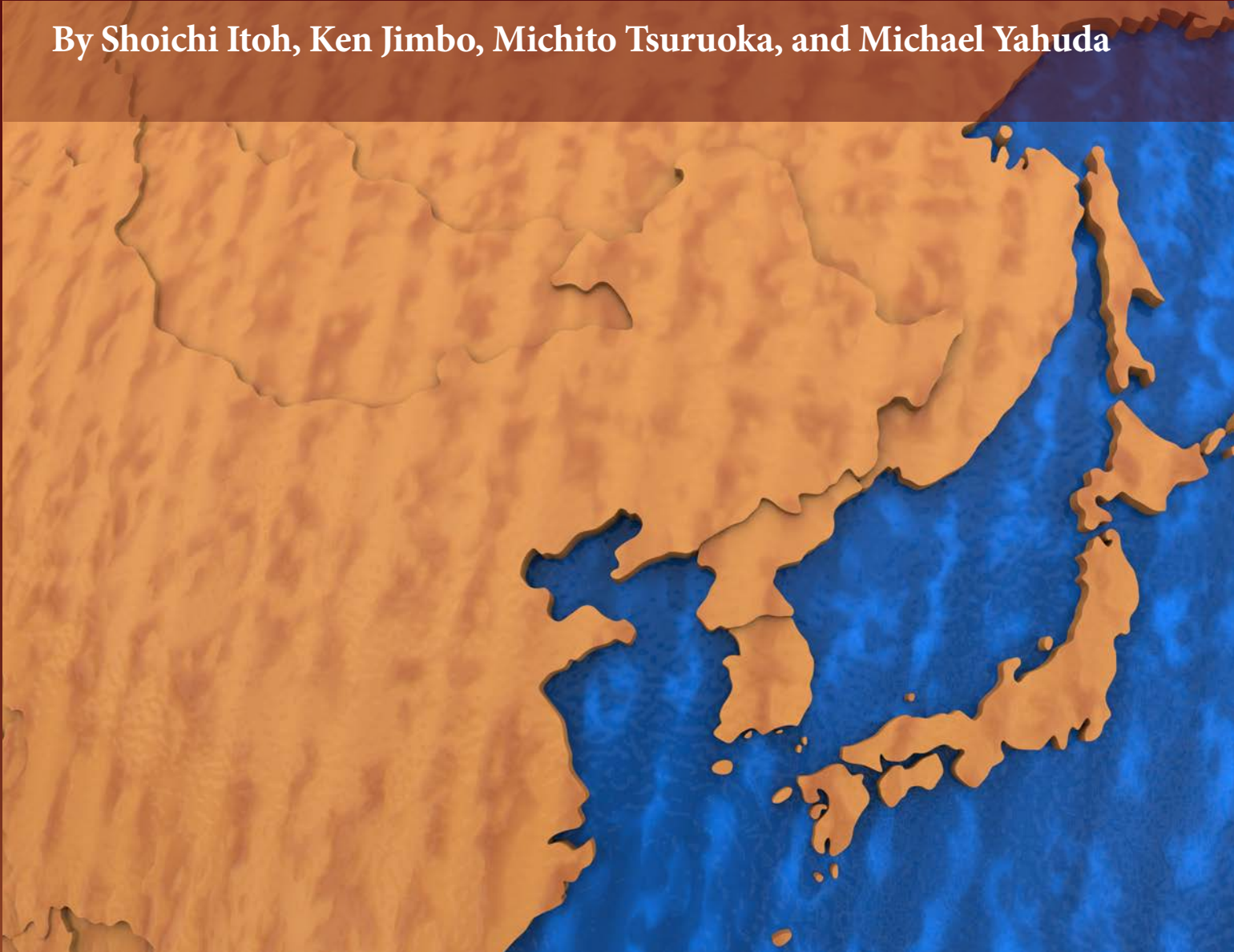


JAPAN AND THE SINO-RUSSIAN ENTENTE

*The Future of Major-Power Relations
in Northeast Asia*

By Shoichi Itoh, Ken Jimbo, Michito Tsuruoka, and Michael Yahuda



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FOREWORD

Contemporary Northeast Asia is witnessing an unprecedented confluence of interests driving Sino-Russian entente and Japan's outreach to Russia. As Russia becomes increasingly isolated by sanctions and sees its economic power decline due to low energy prices, China presents an attractive option as a resource-hungry economy that is willing to deal with Russia without preconditions. Moreover, as the two countries actively assert their own interests and influence, particularly along their peripheries, we are witnessing a greater convergence of their outlooks for the region. In particular, they share similar grievances and suspicions about the United States and the U.S.-led international order. Deepening ties in the economic, diplomatic, and military spheres bear significant, if currently poorly understood, implications as the two neighbors align in ways that affect U.S. and regional interests.

The prospect of greater cooperation between Russia and China confronts Japan with significant challenges at a time of intensifying Sino-U.S. competition and increasing Chinese assertiveness around the Senkaku/Diaoyu Islands. Tokyo's overtures to Moscow are prompted, in part, by the hope of reducing tensions with its neighbor and incentivizing Russia to diversify its regional partners beyond China.

Although each country's interests at the national and regional levels will likely reinforce these trends for the foreseeable future, there are limits to cooperation. Asymmetries in national power, military capabilities, and international stature, as well as historical distrust and China's growing footprint in Central Asia, could slow the momentum of Sino-Russian relations. Likewise, the success of Japan's relationship with Russia hinges on the trajectory of both China-Russia and U.S.-Russia relations. In particular, improvements in the latter under the Trump administration could diminish Japan's strategic value in Moscow's calculus.

Given the above variables, this report examines the dynamics between Japan, China, and Russia. Michael Yahuda's essay provides a timely assessment of the current state of Sino-Russian relations. He notes that the partnership between Beijing and Moscow is growing, especially in the political and military realms, to the mutual benefit of both parties while reinforcing their respective national interests. Although asymmetries and uncertainties in this strategic partnership have opened up a window of opportunity for Japan and Russia to potentially draw closer, unresolved territorial issues between those two countries, the U.S.-Japan alliance, and the prospect of warming U.S.-Russia relations temper optimism for rapid improvements in the Japan-Russia relationship.

The challenge for Japan, as observed by Michito Tsuruoka, is that proximity to Russia means that Tokyo must address Moscow as part of its strategic environment. Although Prime Minister Shinzo Abe has a political as well as a personal commitment to improving ties with Moscow, closer relations between Japan and Russia are also seen as necessary for preventing, or at least neutralizing, Russian cooperation with China. This path is ambitious and is further complicated by the fact that bilateral relations cannot be addressed without a consideration of Chinese and U.S. interests. Tsuruoka notes that any resolution to the dispute between Japan and Russia over the Kuril Islands/Northern Territories will have to consider the military status that the returned islands would have under the U.S.-Japan Mutual Cooperation and Security Treaty and suggests that the cases of German unification and NATO enlargement may be instructive.

Ken Jimbo addresses the complexities in Japan's evolving security relationship with Russia. Although the relationship has developed from Cold War animosity to nascent cooperation, Russia's military activities near Japan and deepening military-to-military cooperation with China, including arms transfers, raise concerns. For Tokyo, major challenges would be the potential coordination between China and Russia in a "gray zone" crisis or their joint opposition to U.S. security relationships in the region. Given Tokyo's fraught security outlook, Jimbo recommends upgrading security relations with Russia to reduce tensions and offer Russia an alternative security partner to China as one of the avenues for Japan to pursue greater security.

The final aspect of Japan-China-Russia relations examined in this report is Russia's evolving energy relations with Northeast Asia. While Russia once held a dominant position in shaping the region, it is now under pressure to increase its presence in Northeast Asian oil and gas markets, where China is the only consumer whose demand is expected to grow significantly. Meanwhile, China has more options for global suppliers than ever before. Shoichi Itoh observes that energy is an important dimension of Russia-Japan relations. Japan views energy cooperation as a tool to coax Russia to the negotiating table on the disputed territories, while reducing its dependence on oil from the Middle East. However, Japan's oil demand has peaked and its gas demand is almost at its peak, which means that Tokyo's ability to further shape demand outlooks is limited.

Together, the analyses in this report provide a comprehensive assessment of how emerging China-Japan-Russia dynamics could shape major-power relations in Northeast Asia and beyond. This report is part of a 24-month initiative, made possible by the generous support of the Carnegie Corporation of New York, to study the implications of China-Russia cooperation for the United States and the U.S.-Japan alliance. I would like to thank Robert Sutter for his vision and guidance in the discussions and research culminating in this report. Additionally, this report benefited from the insights and review of the project's senior advisers, Noboru Yamaguchi and Ryo Kubota. Finally, I am grateful for the hard work and dedication of Brian Franchell and Brian O'Keefe, who played an indispensable role in organizing project discussions and editing the report.

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Japan and the Sino-Russian Strategic Partnership

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EXECUTIVE SUMMARY

This essay evaluates the strengths and weaknesses of the Sino-Russian strategic partnership in light of the crisis in Ukraine and examines the recent failed attempts by Japan to resolve its long-standing differences with Russia.

MAIN ARGUMENT

President Vladimir Putin's intensified outreach to China in mid-2014 to mitigate the disastrous economic effects of Western sanctions following both the Ukraine crisis and the steep drop in oil and gas prices has not met Russia's economic needs. Instead, the two big Eurasian powers have found that their strategic partnership is more important, even if still limited, in the diplomatic, political, and military realms than in the economic realm, where their interests were supposed to be the most complementary. In this context, Prime Minister Shinzo Abe attempted to establish a rapprochement with Russia after 70 years of stalemate over the disputed Kuril Islands/Northern Territories. Abe proposed to Putin that Japan would first help modernize the Russian Far East and then negotiate afresh over the islands. In the end, however, Putin refused this compromise, demonstrating the priority of the enhanced relationship with China.

POLICY IMPLICATIONS

- Abe's initiative to modernize the economy of the Russian Far East with a view ultimately to reaching a peace treaty over the disputed Kuril Islands/Northern Territories could open the way for Russia to reach out to the vibrant economies of the Indo-Pacific.
- If Russian-U.S. relations improve during the Trump administration, such a development would weaken the Sino-Russian partnership and would be a geopolitical setback for China in the region, which would be to the advantage of the U.S. and its allies.
- The U.S. should recognize the leverage it possesses over the geopolitical choices available to these major powers. The sanctions imposed on Russia made its turn to the East an act of necessity rather than a matter of choice, while U.S. dominance of the international financial system limited the capacity of Chinese and Japanese banks to invest in or to extend loans to Russia. To be even more effective, the U.S. should use such leverage together with the European Union and Britain.

Three months after his election as prime minister, Shinzo Abe visited Moscow in April 2013, the first visit by a Japanese prime minister in ten years. His aim was to agree on a peace treaty, which had eluded his predecessors since the end of World War II. President Barack Obama approved of the visit, but China did not. Beijing characterized the visit as “a naïve attempt to contain China.”¹ However, the Ukrainian crisis of March 2014, changed the calculus of all four powers—the United States, China, Russia, and Japan. The United States finally abandoned its previous attempts to “reset” relations with Russia and led the West in imposing sanctions on the country and in seeking to isolate it. Russia, in response, intensified its turn to China in order to alleviate the pain caused by the sanctions, which coincided with the halving of the price of oil and gas (on which its economy depends). China was receptive to deepening the strategic partnership. Japan saw an opportunity to press ahead with its new approach to a Russia that wanted to revive the economy of its Far East and reduce its dependency on China for access to the more vibrant Indo-Pacific.

As Abe persisted in reaching out to Vladimir Putin, Obama changed from public approval in 2013 to outright public opposition by 2016. It eventually became apparent that Putin was unwilling to yield on the long-standing territorial dispute over the Kuril Islands/Northern Territories. Meanwhile, Sino-Russian relations did in fact improve, especially as Moscow once again was willing to sell advanced military systems to China after a gap of about ten years. Ironically, less progress was made in the economic sphere, despite the expectation that it offered the most promising opportunities.

The main purpose of this essay is to explore what happened in the latter half of 2016 to weaken Putin’s interest in responding more positively to Abe’s “new approach.” To anticipate the conclusion, it will be argued that Putin expected that a new relationship with the United States would develop following the election of Donald Trump. But other factors were also important. The strategic partnership with China was of greater value than a relationship with a Japan that was still closely allied to the United States. After all, Xi Jinping shared much of Putin’s antipathy to U.S. foreign policy and also regarded the projection of American values as an existential threat to their respective political systems. While Putin was interested in developing the Russian Far East and in integrating its economy with the vibrant Indo-Pacific countries, his core interests lay in Europe and Central Asia, where China, unlike Japan, was playing an increasingly influential role.

The Sino-Russian Strategic Partnership

The relatively vague concept of strategic partnership describes the character of Sino-Russian relations fairly well. It is something less than an alliance in which each party assumes formal obligations to come to the assistance of the other at times of need. It also differs from the Leninist or Maoist concept of a “united front” in which two or more parties join in common cause against a specified enemy, whose immediate threat overrides other differences between those parties. But once circumstances change and the main enemy is overcome, the enmity is directed against the next most immediate threat, which may even turn out to be the erstwhile partner. This is what

¹ Alexander Gabuev, “Friends with Benefits? Russian-Chinese Relations after the Ukraine Crisis,” Carnegie Moscow Center, June 2016, <http://carnegie.ru/2016/06/29/friends-with-benefits-russian-chinese-relations-after-ukraine-crisis-pub-63953>. Gabuev’s article draws on extensive interviews with Russian and Chinese officials.

happened when Chiang Kai-shek and Mao Zedong formed a united front in the “war of resistance to Japan” that changed into a civil war after Japan’s defeat.

Dmitri Trenin argues that although China and Russia are each “wary of coming too close to the other,” they “continue to consolidate and upgrade their relationship short of an alliance... [T]he greater Eurasia that they are constructing will not be run from the same center, but their continental entente will essentially be aimed at limiting U.S. dominance.”² The China-Russia partnership challenges the current international order under the aegis of the United States. Both Putin and Xi project a nationalism based on a deep historical grievance against the West as led by the United States, which they now charge with opposing their current attempts to restore the past greatness of their countries. For Putin, the key event in Russia’s national humiliation was the disintegration of the Soviet Union. Xi recalls a “century of shame and humiliation,” beginning with the Opium War of 1840, which destroyed imperial China. They claim the United States seeks to undermine their political systems by the promotion of what they call the “Western values” of human rights and democracy. They also oppose military intervention in other countries without the prior endorsement of the UN Security Council, where each wields the power of veto. Moreover, Presidents Xi and Putin are said to enjoy a good personal relationship, holding each other in mutual esteem, which helps strengthen trust and smooth over differences.

Perhaps the main achievement of the partnership, which was announced in 1996, was the final resolution in July 2008 of the long-standing disputes involving their 4,300-kilometer border. The agreement brought to an end a history of antagonism over border issues arising from the tsarist annexation in the mid-nineteenth century of over a million square kilometers of what was sometimes called “outer Manchuria.” Peaceable relations along this previously troubled border stabilized their rear area, enabling them to focus their strategic concerns elsewhere. Russia has focused on strengthening its relations with Europe and the “near abroad”—its historical centers of geopolitical interest. Stability on the northern borders has given China the latitude to expand its economic and military interests to its southern and eastern periphery, providing it with opportunities to reach out even farther to Africa and South America.

Arguably, however, the most tangible mutual benefits from the enhanced partnership have been in the military domain, especially in the Russian export of weapon systems. Such exports had been suspended for the previous ten years due to the accusation that China had copied earlier Russian weapon technology and sold it more cheaply to African countries and elsewhere. Russia was also concerned that the weapons might end up being used against it—for example, in the Russian Far East. But on closer inspection, the Kremlin found that China’s military industrial complex was more technologically advanced than previously thought. Moreover, Russia would probably advance to the next generation of weaponry before China could successfully copy the current one.

One of the most significant sales so far is the S-400 Triumph air defense missile system. China is scheduled to receive six consignments no earlier than 2018. The system will have the capability of shooting down fighter planes from Taiwan “as soon as they take off” and will greatly increase Japan’s difficulties in policing the skies above the Senkaku/Diaoyu Islands. The S-400 could also facilitate China’s installation of an air defense identification zone in the South China Sea. Similarly, China’s purchase of 24 Su-35 fighter jets will facilitate Chinese dominance over the skies

² Dmitri Trenin, *Should We Fear Russia?* (Malden: Polity Press, 2016) 67–68.

of Taiwan as well as other hotspots.³ China, for its part, is able to supply Russia with advanced electronic equipment. For example, the world's fastest computer was made in China. China is also advanced in the making of drones. It has produced modern helicopter-landing amphibious assault ships (which Russia lacks), and Russia is in the process of using Chinese electronic equipment for some of its satellites.⁴

Beginning in 2005, Russia and China have carried out military exercises (sometimes with Central Asian partners) mainly aimed at combating Islamic terrorists, and since 2011 they have conducted naval exercises in various seas, ranging from the Mediterranean Sea to the Yellow Sea, the East China Sea, and in 2016 even in the disputed waters of the South China Sea. Russia has been careful to avoid giving the impression that it is siding with China in the latter's territorial disputes. In addition to displaying the two countries' military prowess and ability to work together, the joint exercises helped Russia demonstrate an array of weapon systems for potential sale, and they enabled the Chinese side to improve battle operations. But there was no suggestion that the two would combine forces in military conflict.⁵

Difficulties and Uncertainties

The disparity in the size of their economies, combined with the relative modernity of the Chinese economy, has reversed the asymmetry between Russia and China that prevailed until about 1980. The CIA's *World Factbook* estimated China's GDP in 2015 at \$11.8 trillion and Russia's at \$1.326 trillion.⁶ Russians regard the huge difference as embarrassing, especially those who can remember the 1950s when Russia was the "elder brother" and a model for an inferior China. This asymmetrical economic relationship is reflected in the wide gap between the value of China's trade with Russia and with the United States: The value of Sino-Russian trade was only \$94 billion in 2014 (its best year), whereas the value of U.S. trade with China that year was \$659 billion. Although China took 10% of Russia's exports and ranked second as its trading partner before sanctions were introduced, Russia's exports to China equaled less than a quarter of its exports to the EU.⁷ For the immediate future, China cannot be regarded as a trading substitute for Western Europe. It also cannot provide Russia with the range of high-tech goods and machinery previously supplied by EU countries.

Russia's economic problems, as well as the slowdown in the growth of the Chinese economy and its attempted shift from an investment and export economy toward a consumer economy, have increased the existing obstacles to the implementation of earlier Sino-Russian agreements. These include the absence of effective infrastructure, especially roads and rail; bureaucratic inefficiencies; the lack of political will in Russia to modernize the economy; and cultural differences between the two sides.

Thus, given this economic malaise, joint projects are losing momentum. The agreements reached in 2013 and 2014, respectively, for Russia's largest state-run companies to supply China

³ Gabuev, "Friends with Benefits?" 18.

⁴ Vasily Kashin, "Sanctions Are Forcing New Russian Links with China," *Moscow Times*, available at http://www.huffingtonpost.com/vasily-kashin/sanctions-are-forcing-new_b_5942902.html.

⁵ Richard Weitz, *Parsing Russian-Chinese Military Exercises* (Carlisle: U.S. Army War College Press, 2015).

⁶ *The World Factbook 2016* (Washington, D.C.: Central Intelligence Agency, 2015), <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>.

⁷ According to the World Trade Organization (WTO), the EU received 39.8% of Russian exports and China 8.2%. See WTO, "Trade Profile: Russian Federation," WTO Statistics Database, 2015.

with \$270 billion in oil supplies and \$400 billion in gas have not led to firm contracts. Although China has agreed to a loan of \$12 billion to help finance a Russian project in the Arctic and Chinese investments are starting to flow into Russian agriculture, Russia has complained about the length of time it takes for the Chinese side to make decisions, as well as about the effect of Western sanctions. The major Chinese banks still refuse to invest in or loan substantial amounts to Russia lest they too be hit with sanctions.⁸ Nevertheless Putin has claimed to be convinced that the “difficulties in the global economy...will be temporary.”⁹

Russia has also been careful to keep its own relations with Asian countries separate from those of China. Not only does it continue to sell arms to India and Vietnam (sometimes of superior quality to those sold to China), but it has resisted Chinese offers to strike a deal by which, in return for Beijing’s acknowledgement of the Southern Kuril Islands/Northern Territories as belonging to Moscow, the latter would side with Beijing on ownership of the Senkaku/Daiouyu Islands. Further, Russia supported Japan’s candidacy to join the Arctic Council as an observer, while rejecting China’s.¹⁰

Consolidating the Sino-Russian Strategic Partnership?

Nevertheless, Moscow believes that bolstering China’s military position in East Asia is very much in Russian interests. As the official in charge of Russian arms exports stated in April 2015, “if we work in China’s interests, that means we also work in our interests.”¹¹ In other words, the U.S.-led economic sanctions on Russia have made Sino-Russian strategic interests more congruent. As already noted, despite their systemic and geopolitical differences, each side regards the United States as an existential threat to its political system as well as the major obstacle to its great-power aspirations.

Both China and Russia generally oppose U.S. military intervention in other countries, except on the rare occasions when it has been authorized by the UN Security Council. Chinese leaders are adamantly opposed to attempts by Western governments and NGOs to promote human rights, the rule of law, and democracy because of the effect these values may have on Xinjiang and Tibet. Although China has not openly opposed Russia’s interventions in Ukraine, where it has annexed Crimea, or in Georgia, where it has established two breakaway states, Abkhazia and South Ossetia, Beijing has indirectly indicated disapproval.¹² Indeed, China has a certain economic stake in working with the current Ukrainian government despite Russian opposition to that government. So far, Russia and China have found ways to minimize or overlook instances where their interests differ. In any event, the differences that do exist tend to be in areas not considered of equally vital importance to their respective security interests.

In Central Asia, where Sino-Russian economic and geopolitical interests overlap, the framework of the Shanghai Cooperation Organisation (SCO) has suited China, which prefers multilateral institutions organized on the basis of voluntary and consensual processes over legally

⁸ Gabuev, “Friends with Benefits?”

⁹ See the interview with President Putin by Bloomberg, June 23, 2016.

¹⁰ Dmitry Stretslov, “Russia’s Approach to Japan under Vladimir Putin: A Strategic Perspective,” in *Japan-Russia Relations: Implications for the U.S.-Japan Alliance*, ed. Gilbert Rozman (Washington, D.C.: Sasakawa Peace Foundation USA, 2016), chap. 5.

¹¹ This statement was made by Anatoly Isaykin, CEO of Rosoboronexport (the Russian arms-export monopoly), in an April 2015 interview with *Kommersant*, cited by Gabuev, “Friends with Benefits?” 18.

¹² Regarding Georgia, the Chinese Foreign Ministry spokesperson said the issue should be settled by “the relevant parties” through “dialogue and consultation.” See Xinhua, August 27, 2008. On Crimea, see Shannon Tiezzi, “China Reacts to the Crimea Referendum,” *Diplomat*, March 18, 2014.

binding decision-making. The SCO has also been congenial to the Central Asian states, anxious to consolidate their newfound statehood, as well as reassuring to a Russia that has struggled to recover economically and politically from the collapse of the Soviet Union. Despite its name, the SCO is not seen as a China-dominated institution. Its membership will increase to eight countries following the accession of India and Pakistan in 2017, in addition to having four observers and six dialogue partners. Yet the growing diversity of its membership means that the SCO no longer has a clear focus, let alone a sense of purpose.

For its part, China has left the exercise of overt military influence to Russia and its Collective Security Treaty Organization (CSTO). The CSTO comprises five members of Russia's near abroad, including three states from Central Asia. However, the divergence of security interests between members, and even mutual hostility in some cases, has prevented the CSTO from becoming an effective military alliance. At best, it is a mechanism for Russia to legitimate its military presence in some of these states and exercise a vaguely defined military influence.

China has greatly increased its influence by virtue of the strength and the complementarity of its economy. The development by China of the One Belt, One Road (OBOR) initiative may in time transform communications globally. At present, activities are all piecemeal. Lengthy discussions between Russian and Chinese teams about how to link the "Silk Road" with earlier Russian proposals for Eurasian connectivity have yielded some progress, at least conceptually. The Russian-led Eurasian Economic Union, for example, currently consists of a customs union and a nascent economic community between Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia, with Russia as the central player. Putin seeks to enlarge the membership so as to integrate the region that will help elevate Russia's great-power aspirations. But Russia cannot hope to match the economic weight of investment in OBOR. Indeed, there are voices in Moscow that fear that the long-term result of OBOR may be the relegation of Russia to little more than a "security firm guarding China's economic expansion."¹³ The maneuvering between Russia and China in this context may also be seen as part of a larger competition between the two countries for closer ties with the EU and some of its member states. Europe is at the heart of Russia's security and economic concerns, whereas from a Chinese perspective the EU and European countries more broadly provide alternatives to the United States and Japan for sophisticated markets and access to advanced technology, thereby avoiding undue dependence on the two main countries that could be regarded as adversaries.¹⁴

China and Russia as Partners, Not Allies

Sino-Russian relations became much closer after the imposition of Western sanctions and the precipitous fall of energy prices, but major differences in their respective interests remain. The most important of these follow from the enormous differences in the size and character of their economies. The Chinese economy is highly integrated with the international economy as a trader, a manufacturer, and an investor. It is currently in the difficult process of trying to reform itself from being primarily a producer to a consumer economy—a process to which Russia has little to contribute. Russia has not reformed its economy, leaving it primarily a producer of energy and raw materials, more than 50% of which is directed to Europe. Although the two sides have

¹³ Gabuev, "Friends with Benefits?"

¹⁴ Mathieu Duchâtel et al., "Eurasian Integration: Caught between Russia and China," European Council on Foreign Affairs, June 7, 2016, http://www.ecfr.eu/article/essay_eurasian.

signed agreements to increase the Chinese share substantially, it will be several years before the necessary supporting infrastructure can be built. Thus, Russia's so-called pivot to Asia cannot yield immediate transformative results. Meanwhile, China is very much in the driver's seat at a time in which Chinese companies are no longer offering "friendship prices."

As already discussed, the political, military, and diplomatic dimensions of the partnership have yielded the most benefits to both parties. Yet Russia and China are not allies; they are not bound by treaty or by agreed understandings that each would come to the aid of the other in the event of an attack. They have specifically avowed that their partnership is not directed against a third party. Despite the two countries marking the twentieth anniversary of this partnership, economic exchanges are still limited by the lack of transportation infrastructure—as compared, for example, to that linking China and Kazakhstan. According to Alexei Maslov, the head of the Asian Studies School at the Higher School of Economics in Moscow, Russia has sought to go beyond raw material exports that dominate their trade, "but China is not interested."¹⁵

In recent years, both countries have made much of their cultural and educational exchanges.¹⁶ The significance of professed cultural affinity is much exaggerated. Chinese and Russians are not particularly close, and neither side is well informed about the other's culture or business practices. As we have seen, Putin's pivot to China was the product of necessity. The effect of two consecutive years of recession left Moscow with few options except to turn to China, even if that has meant accepting a subordinate economic relationship.

The Japanese Option

Abe has spent much time cultivating personal relations with Putin, having met him sixteen times since becoming prime minister in December 2012. In a meeting in May 2016, Abe offered Putin economic cooperation in the Far East in eight fields, including health, urban environment, small and medium businesses, energy, industrial diversification, transportation, nuclear power, and people exchanges.

What has made the prospect of this strategic realignment seem more possible now, as opposed to the failed attempts of a Japanese-Russian rapprochement spanning the past seven decades, has been the confluence of circumstances at international, regional, and domestic political levels. Internationally, Russia has been driven into relative isolation and decline, and as a result it has turned even more strongly toward China. But the disparity in the character of the economies and their relative ignorance of each other has led to difficulties and delays in bringing to fruition the numerous big-ticket agreements reached in the past few years. The above considerations have made the new Japanese initiative seem attractive to some in the Russian leadership. However, rather than evincing signs of despondency, the Russian side has argued to the contrary that it is Japan's "new approach" that should be seen as a "sign of desperation and a demonstration of the extent to which Japan needs Russia."¹⁷ According to that view, Japanese attempts to resist effectively a fast-growing

¹⁵ See Maslov's points about Russian disappointment with the limited economic engagement despite their much vaunted partnership, "Russia and China: Entanglements and Points of Tension," Chatham House, Roundtable Summary, October 23, 2015.

¹⁶ The number of student exchanges has increased, with some 17,000 Russians in China and about 25,000 Chinese studying in Russia. That is because of official arrangements, and the plan is to raise the total number to 100,000 by 2020. But these figures pale beside the number of Chinese students currently studying in Western countries, with over 300,000 in the United States, 88,000 in the United Kingdom, and nearly 100,000 in Australia. See Tetsua Toyodo, "For More Student Exchanges between Russia and Japan," in *Russia and Japan: Looking Together into the Future*, ed. Victoria Panova and Artyom Lukin (Vladivostok: Far Eastern Federal University, 2016), chap. 8.

¹⁷ James D.J. Brown and Andrei I. Kozinets, "Mr. Abe Goes to Vladivostok," *Diplomat*, September 9, 2016.

resurgence of Chinese military power are limited by doubts about the United States' willingness to offer military protection and risk a war with China when successive administrations have put so much effort into cultivating relations with the country.

Perhaps what made possible the prospect of a Russo-Japanese entente is the domestic political dominance of Putin and Abe. Both leaders are renowned at home for their nationalism and therefore should be able to override any domestic opposition that may arise. At the same time, both leaders continue to face deep economic setbacks at home, which had threatened to weaken their political standing. Therefore, it seemed that each stood to benefit if they were able to reach substantive economic agreements, which would bolster their countries' respective economic performance. The eight-point economic cooperation plan Abe proposed on his visit to Sochi in May 2016 reportedly amounted to nearly \$9 billion.¹⁸

Despite Japanese optimism, it had become clear by late November that Japanese hopes of a breakthrough at the Abe-Putin summit on December 15–16 in Abe's home prefecture would be dashed.¹⁹ Donald Trump's election improved the prospects for better U.S. relations with Russia and thereby reduced the urgency for it to make a deal with Japan, especially as that would involve territorial concessions. As already noted, Russian relations with China were more important to Putin than relations with Japan, especially in view of the latter's close alliance with the United States.

Notwithstanding Putin's love of judo and his invocation in April 2013 of the judo term *hiki-waki* (implying an honorable draw between two contestants), by the fall of 2016 it was clear that Russia would retain full sovereignty and control over all four islands. The most agreed to by Abe and Putin was that a legal mechanism be set up to enable joint economic activities to take place. But it was not clear how they would overcome the jurisdictional question of whose laws would govern the proposed economic activities, especially in view of the issue of sovereignty. Meanwhile, the proposed Japanese investments, loans, and credit line for the Russian Far East were scaled down from roughly \$9 billion to around \$2.6 billion.²⁰

The gap between the two sides on security issues also emerged in public during a news conference held by the two foreign ministers on December 3. Foreign Minister Sergei Lavrov stated that he had told Foreign Minister Fumio Kishida that the deployment of U.S. missiles in the Asia-Pacific is a "threat," while the latter "lodged a protest" that the placing of anti-ship missile systems on two of the disputed islands "goes against Japan's position on the islands."²¹ However, Japan has continued to pursue the issue of the disputed islands by offering to dispatch medical and other forms of assistance there. Officials from both sides met on March 18, 2017, to discuss healthcare, fisheries, and other joint projects, but were unable to resolve questions of sovereignty. Yet they hoped to improve access by former island residents, whose average age is now over 80.²²

¹⁸ "In Fresh Isle Talks, Abe and Putin Agree to Japan Summit, Economic Deal in December," Bloomberg and Kyoto, September 2, 2016.

¹⁹ At a press conference on November 20, 2016, Putin affirmed that the "Southern Kurils are now territory under Russian sovereignty." And as for the two smallest islands that might be returned to Japan, Putin said that the "conditions" were not clear. "In Potential Setback for Abe, Putin Maintains Tough Stance on Island Dispute," *Japan Times*, November 21, 2017.

²⁰ Ayako Mie, "Abe-Putin Summit to Open Door to Isle Row Solution," *Japan Times*, October 17, 2016; and Reiji Yoshida, "Abe-Putin Summit Ends with Economic Deals but No Isle Steps," *Japan Times*, December 16, 2016.

²¹ "Japan, Russia to Continue Peace Treaty Talks Up to Abe-Putin Summit," Kyodo, December 3, 2016.

²² "Japan, Russia, Open Talks on Isle Development Projects," Kyodo, March 18, 2017.

Conclusion

The strategic relationship with China is more important to Putin than forging a new relationship with Japan, whose security is based on its alliance with the United States. But given Russia's aspirations to be accepted as a great power in its own right, the asymmetrical relationship with China cannot endure. Sooner or later, the Russian leadership will seek alternatives to the prospect of being a subordinate of China. At that point, a rapprochement with Japan that can help modernize the Russian economy, especially in the neglected Far East, will become more attractive.

From a U.S. perspective, a Russian rapprochement with Japan would weaken China's strategic position in East Asia and reduce the significance of its alignment with Russia. The United States' Asian allies would also benefit from the integration of Russia's economy into the Asia-Pacific.

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Strategic Considerations in Japan-Russia Relations: The Rise of China and the U.S.-Japan Alliance

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EXECUTIVE SUMMARY

This essay examines recent developments in Japan-Russia relations and assesses the implications of both China's rise and the U.S.-Japan alliance for this relationship.

MAIN ARGUMENT

The Japan-Russia relationship operates in a complex strategic environment. In conducting diplomacy with Moscow, Tokyo must take into account both the rise of China as a strategic challenge to Japan and the alliance with the U.S., which is always viewed skeptically by Moscow. On the one hand, China's assertive actions in the East and South China Seas provide the basic strategic rationale for Japan's recent efforts to improve relations with Russia. On the other hand, any possible deal between the two countries on the return of the disputed Northern Territories/Southern Kuril Islands will have to address the role of U.S. forces in protecting Japan under the U.S.-Japan Security Treaty. For resolving the latter issue, the unification of Germany in 1990 and NATO enlargement in the late 1990s may provide useful lessons on what Russia might demand and what could be negotiated.

POLICY IMPLICATIONS

- As long as it perceives the current strategic environment in Northeast Asia as "increasingly severe," Japan is likely to maintain efforts to improve relations with Russia in order to bolster its own security.
- By far the most important issue for Tokyo in Japan-Russia relations is the return to Japan of the disputed Northern Territories. Concluding a deal will require full support from the U.S. because Japan cannot—and should not—make a decision about the military status of the returned islands without taking into consideration the U.S.-Japan Security Treaty.
- While seeking to improve relations with Russia in view of the rise of China and its increasingly assertive actions in the East and South China Seas, what Tokyo could realistically achieve remains modest: preventing Russia and China from presenting a united front against Japan regarding wartime history and territorial issues.

Russia has been, is, and will remain Japan's neighbor. Regardless of the perceptions—negative or positive—that people from the two nations have of each other, Tokyo needs to deal with Moscow in the context of Japan's strategic environment, which obviously includes the rise of China and the role of the United States in Northeast Asia. For Moscow as well, how to deal with Tokyo cannot be separated from its overall regional and global strategy.

The relationship between Japan and Russia after World War II has never been cordial or normal in any sense of the term. The two countries have yet to sign a peace treaty, though the war was officially ended when they adopted the Joint Declaration in 1956. Moreover, they have a long-standing territorial dispute over the islands known as the Northern Territories in Japan and Southern Kuril Islands in Russia, currently controlled by Moscow. Many Japanese, including politicians and the press, tend to focus exclusively on the territorial problem when it comes to relations with Russia. Nevertheless, not only does the relationship go beyond this single issue, but the territorial dispute itself also involves variables beyond the narrow remit of the bilateral relationship, such as the U.S.-Japan alliance and China's rise.

This essay examines the international and strategic dimensions of Japan-Russia relations. It explores, in particular, Tokyo's need to address challenges caused by the rise of China, as well as the implications of the U.S.-Japan alliance for Tokyo's relations with Moscow, including, most notably, the negotiations over the Northern Territories. In other words, the essay will examine the extent to which China and the United States are factors in Japan-Russia relations.

The first section examines Prime Minister Shinzo Abe's overture to Russia—both in terms of personal factors and strategic calculation, particularly regarding challenges from China. The second section explores the role of the United States in territorial negotiations between Japan and Russia and specifically addresses Russia's concerns about the U.S.-Japan alliance. The following section draws lessons from German unification in 1990 and NATO enlargement in the late 1990s. In terms of thinking about what military restrictions Russia wanted and what the West was prepared to agree to, those two cases are relevant to the territorial negotiations between Tokyo and Moscow, which will need to address a similar set of issues in due course. The fourth section will discuss possible directions for Japan-Russia relations in the Trump era.

Shinzo Abe's Overture to Russia: The Meaning and Limits of the China Factor

Since returning to power in December 2012, Prime Minister Abe's political, as well as personal, commitment to improving relations with Moscow has been remarkably consistent and almost unprecedented. It is often understood that his family background makes Abe committed to Russia. His father, the late foreign minister Shintaro Abe, devoted his political life to improving relations with Moscow in the final years of the Soviet Union, which he was unable to accomplish as he died early due to illness. For Prime Minister Abe, concluding a peace treaty with Russia is a mission that he believes he inherited from his father.¹

Apart from Abe's personal story, Tokyo's overture to Moscow in recent years is also firmly based on strategic calculations. Simply put, Japan's engagement with Russia has been influenced by China's increasing assertiveness in the region. Furthermore, Japan is concerned about the political

¹ See, for example, Shinzo Abe, "Naigaijousei chousakai zenkoku kondankai Abe souri supichi" [Speech by Prime Minister Abe to National Plenary Session of NAIJY] (Tokyo, December 20, 2016); and Noriyuki Yamaguchi, *Antou* [Struggle] (Tokyo: Gentousha, 2017), 126–29.

and security implications of the apparent strengthening of the Russia-China axis. More bluntly, it believes that it needs to prevent Russia and China from getting too close to each other, which has led to the belief that Japan—or the international community as a whole for that matter—should not corner Russia too much lest it end up depending more on China, particularly in the wake of the Ukraine crisis and group of seven (G-7) sanctions.

The Abe government's fundamental reason for seeking to improve relations with Russia has been consistent and importantly started before the Ukraine crisis and Russia's isolation from the West. The National Security Strategy (NSS), adopted in December 2013, argued that "*under the increasingly severe security environment in East Asia, it is critical for Japan to advance cooperation with Russia in all areas, including security and energy, thereby enhancing bilateral relations as a whole, in order to ensure its security*" (emphasis added).²

Following Russia's annexation of Crimea, Japan condemned the action as a "change of the status quo by force," something that it strongly opposes in view of China's challenges to Japan's administrative control of the Senkaku Islands in the East China Sea. Tokyo joined other G-7 partners in imposing sanctions against Russia. In a press conference in March 2014, Abe stated, "We must never condone changes to the status quo with force in the background. Russia's attempt to annex Crimea is clearly in contravention of international law and is no longer merely an issue for a single region, Europe, but rather a global issue that exerts an impact on Asia as well."³ However, Japan's basic approach to Russia remains unchanged, mainly because the primary strategic reason—particularly the "increasingly severe security environment"—for Japanese cooperation with Russia in East Asia does not seem to have changed. This also reflects the fact that Russia's posture and behavior in Asia have been less assertive compared with its conduct in Europe and Syria. For Japan, Russia is first and foremost judged by its actions in East Asia, which is why Abe did not want to let the Ukraine crisis squander his efforts to improve relations with Moscow, particularly his personal relationship with President Vladimir Putin.⁴

What the NSS refers to as an "increasingly severe security environment" is mainly related to China—in particular, its assertive behavior in the East and South China Seas. The NSS clearly states that the goal of improving relations with Russia is to ensure Japan's security. Nonetheless, in light of the long history of estrangement between the two countries after World War II, it is unrealistic for Japan to use Russia as a counterweight against China. There is no illusion in Tokyo about this. Everyone understands that the strategic relationship between Russia and China is much stronger than Japan's relationship with either country.

Instead, what Tokyo could realistically aim to achieve in the short to medium term is to "neutralize" Russia strategically vis-à-vis China.⁵ Its goal is to prevent Russia and China from forming a united front against Japan regarding wartime history and territorial issues. China often tries to prod Russia to criticize and exert pressure on Japan on these and other issues. While the Russian side has been cautious because it does not want to be drawn into China's disputes

² Government of Japan, "National Security Strategy," December 17, 2013, 4, http://japan.kantei.go.jp/96_abe/documents/2013/_icsFiles/afieldfile/2013/12/17/NSS.pdf.

³ "Press Conference by Prime Minister Shinzo Abe," Prime Minister of Japan and His Cabinet, Press Release, March 25, 2014, http://japan.kantei.go.jp/96_abe/statement/201403/0325naigai.html.

⁴ Hiroyuki Akita, *Ranryuu: Beichuunichi anzenhoshou sangokushi* [Turbulent Waters: The U.S.-China-Japan Security Dynamics] (Tokyo: Nihon Keizai Shimbunsha, 2016), 192.

⁵ See Shinji Hyodo, "Heiwajouyaku koshi kagi wa anpotaiwa" [Security Dialogue as a Key to the Peace Treaty Negotiations], *Nihon Keizai Shimbun*, December 9, 2016; and Taisuke Abiru, "Taichuugoku seisaku niwa Roshia no Senryakuteki-chuuritsuka ga kagi" [The Strategic Neutralization as a Key to Japan's China Policy], *Chuo Koron*, January 2017.

with Japan or other countries in the Asia-Pacific region, Beijing's value as a strategic partner has certainly increased in the wake of the Western sanctions on Russia.⁶ Therefore, if Tokyo can prevent Moscow from ganging up with Beijing against Japan, that can be seen as positive for Japanese political and security interests, even if this outcome falls short of using Russia as a strategic counterweight against China.

Another way for Japan to drive a wedge between Russia and China would be to grow closer to China. However, Tokyo seems to have already concluded that this cannot be a viable option in light of what has been taking place in the East China Sea and the fact that China is perceived to present a much bigger challenge to Japan's security than Russia does.

Moscow has its own reasons to maintain autonomy in its engagement with Asia, which have guided its recent efforts to strengthen relations with Vietnam, India, and the Philippines. Foremost, Russia does not want to allow its Asia policy to be dominated by China.⁷ Russia's sale of Kilo-class attack submarines to Vietnam, fully knowing that the latter's main objective is to check and deter China's activities in the South China Sea, is a case in point. Moscow's position on Beijing's claims in the South China Sea is also cautious and measured, always avoiding being drawn too much into China's disputes with other countries in the region. These countries do not see Russia's strategic engagement in Southeast Asia as particularly high, except in arms sales.⁸

In light of the limited nature of the resources that Russia can spend in the Asia-Pacific, the country does not seem to have a realistic means to raise its political and security profile in the region. Still, seen from Tokyo, the fact that Russia is trying to maintain autonomy from China in its engagement in Asia is largely consistent with Japan's interests. An offer of cooperation from Tokyo to Moscow would be appropriate in this context—a message conveying that Russia need not depend solely on China because it has other partners in Asia. The question is how long Russia, regardless of its intentions, can maintain its strategic autonomy in view of its increasingly asymmetric relationship with China.⁹ This issue also suggests that it is in Tokyo's interest to help Russia maintain its strategic autonomy in Asia.

The U.S. Factor: Negotiations between Japan and Russia Cannot Be Purely Bilateral

The Japan-Russia relationship cannot be separate from the U.S.-Japan alliance and the state of U.S.-Russia relations. This has always been the case, even during the Cold War, and it will remain the case in the future. In the event that Russia returns at least some of the islands of the Northern Territories to Japan, one of the most complicated security-related issues will concern the military status of those islands. Three different levels of this problem must be clearly distinguished from one another.

First, there is a question of whether Article 5 of the U.S.-Japan Security Treaty—the clause defining the United States' security commitment to “the territories under the administration of Japan”—would apply to the returned islands. Some press reports have claimed that Moscow

⁶ See, for example, Alexander Gabuev, “Friends with Benefits? Russia-China Relations after the Ukraine Crisis,” Carnegie Moscow Center, June 2016, http://carnegieendowment.org/files/CEIP_CP278_Gabuev_revised_FINAL.pdf.

⁷ Euan Graham, “Russia over a South China Sea Barrel,” Lowy Institute for International Policy, Interpreter, September 12, 2016.

⁸ Ian Storey, “What Russia's ‘Turn to the East’ Means for Southeast Asia,” *Perspective*, December 3, 2015.

⁹ Ian Storey, “The Russia-China Strategic Alignment: Consequences for Southeast Asian Security,” *Perspective*, October 26, 2016.

demanded that Article 5 not apply.¹⁰ The Japanese government categorically rules out any such possibility—it is simply unacceptable to allow a certain area of the country to have a different, lower level of security. Furthermore, given that Japan insists that Article 5 fully applies to the Senkaku Islands, it would be irresponsible to argue that the Northern Territories are different. Therefore, while some media outlets have reported that Tokyo was considering such a possibility, the non-application of Article 5 to the returned islands is a nonstarter for Japan, and Moscow seems to understand this position, at least tacitly.

Second, short of demanding the non-application of Article 5, Moscow is apparently seeking a guarantee that U.S. forces would never be deployed or stationed on the returned islands. The increasing strategic importance of those islands for naval, particularly submarine, operations and Russia's anti-access and area-denial capability deployed in the area seems to have elevated Russia's sensitivity to a U.S. presence in recent years. President Putin expressed his concerns during a joint press conference with Prime Minister Abe in Tokyo in December 2016:

We have two major naval bases [in the region]—one in Vladivostok and the other a bit north—and our naval vessels sail to the Pacific [through the areas under discussion]. We need to understand what would happen in this regard. We are aware of the special nature of the relationship between Japan and the U.S. and the treaty obligations under the U.S.-Japan Security Treaty, but we do not know how these arrangements could be sorted out....We expect our Japanese colleagues and friends to take into account Russia's concerns.¹¹

This clearly shows Putin's concerns regarding the territorial negotiations with Japan over the strategically located Northern Territories. Putin was quoted as asking Abe "whether Japan can promise that U.S. forces will never be stationed in the islands" during their meeting in Yamaguchi ahead of the joint press conference.¹² Russians are always skeptical about the extent to which Japan can make its own decisions independently from the United States.¹³

Compared with the idea of not applying Article 5 to the Northern Territories, the idea of not allowing U.S. troops to be deployed or stationed on the islands appears less implausible and has some historical precedents, as will be discussed below. However, what needs to be remembered is that any agreement on the latter issue would require full support from Washington. Whether through a legally binding treaty or a political declaration, Japan cannot make a deal with Russia in this regard without fully involving the United States. Convincing the latter to accept such a condition would not be easy and would depend on the overall climate of U.S.-Russia relations as well as U.S.-Japan relations. A Japanese official was quoted as saying, "It could even shake the foundations of the alliance."¹⁴ Even if the United States does not currently wish to deploy or station troops in the Northern Territories, imposing a condition—whether legal or political—that forecloses such an option is quite another issue.

Third, though the issue does not seem to have been openly discussed yet, whether Russia wants to limit—without prohibiting altogether—future deployment or stationing of the Japan

¹⁰ One of the very first press reports to make this claim was "Hoppou ryoudo Nichibei anpo Tekiyou jogaini Henkango soutei Roshia youkyuu" [Russia's Demand: The Northern Territories Remain Outside of the U.S.-Japan Security Treaty], *Hokkaido Shimibun*, October 15, 2016.

¹¹ "Nichiro kyoudou kishakaiken" [Japan-Russia Joint Press Conference], Prime Minister's Office, December 16, 2017.

¹² Quoted in Takayuki Tanaka, "Hoppou ryoudo ni beigun' keikai—Nichiro koushou Puchin-shi no kokorowa" [Concerns about "U.S. Troops in the Northern Territories"—Japan-Russia Negotiations, What Putin Thinks], *Nihon Keizai Shimibun*, January 15, 2017.

¹³ See, for example, "Interview by Vladimir Putin to Nippon TV and *Yomiuri* Newspaper," Kremlin, December 13, 2016, <http://en.kremlin.ru/events/president/news/53455>.

¹⁴ "Japan Mulls Deal to Retrieve Russian-Held Isles by Banning U.S. Military from Using Them," *Japan Times*, October 30, 2016.

Self-Defense Forces on the returned islands is also something that Tokyo must think through. Such a concession would essentially mean a “demilitarization” of the returned islands. This is an issue that Japan can decide on its own, at least as a matter of principle, but Tokyo needs to guard against giving the impression that the returned islands are a “second class” area in terms of security.

The Military Status of the Northern Territories: The Cases of German Unification and NATO Enlargement

In considering the potential future military status of the Northern Territories if they were to be returned to Japan, the cases of German unification in 1990 and NATO enlargement in the late 1990s show what Russia could demand and what might be worked out. At the very least, these cases show what sort of issues Tokyo would need to address vis-à-vis Moscow and Washington during its territorial negotiations.

During the negotiations about German unification, the Soviet Union—after acknowledging the inevitability of unification itself and giving up the idea of making a unified Germany neutral—initially wanted the former East German territory to remain outside NATO’s jurisdiction. Some in the West were prepared to consider such an option to address Moscow’s fear about the unification of Germany extending NATO’s territory to the east.¹⁵ However, it soon became clear that such a plan was not workable because it would have meant that one part of the unified country (former East Germany) would be less safe than the other part (former West Germany).

Instead, the idea of putting a “special military status” on the former East German territory was introduced, which came to be materialized in the Treaty on the Final Settlement with Respect to Germany (also known as the Two Plus Four Treaty) between the two Germans, France, the Soviet Union, the United Kingdom, and the United States in September 1990. Article 5 of the treaty states that “foreign armed forces and nuclear weapons or their carriers will not be stationed in that part of Germany or deployed there.”¹⁶ No limitation was introduced for the German forces in the former East German territory, except that delivery vehicles for nuclear weapons are not allowed in the area. What is remarkable is the fact that these conditions were codified in a legally binding treaty, underscoring the Soviet Union’s insistence on them and the West’s willingness and need to reassure Moscow. The final agreement was made possible not only through extensive negotiations between Bonn and Moscow but also through negotiations between Washington and Bonn and Washington and Moscow. Although that particular provision now sounds obsolete given that Poland and other countries surrounding the former East Germany have joined NATO, the treaty is still valid and will remain so as long as the Federal Republic of Germany exists as a sovereign state. This text, moreover, is what enabled the unified Germany to remain a NATO member, thus constituting one of the most important foundations of European security in the post-Cold War period.

During the subsequent NATO enlargement in the late 1990s, which Moscow strongly opposed, NATO and Russia dealt with the issues related to the conditions for foreign troop deployment

¹⁵ See, for example, Philip Zelikow and Condoleezza Rice, *Germany Unified and Europe Transformed: A Study in Statecraft* (Cambridge: Harvard University Press, 1995); and Mary Elise Sarotte, 1989: *The Struggle to Create Post-Cold War Europe*, rev. ed. (Princeton: Princeton University Press, 2014).

¹⁶ See *Treaty on the Final Settlement with Respect to Germany*, September 12, 1990 (Moscow), Article 5.

and stationing in new member states in a similar but different manner. NATO and Russia signed the NATO-Russia Founding Act in May 1997, in which NATO “reiterate[d] that in the current and foreseeable security environment, the Alliance will carry out its collective defence and other missions by ensuring the necessary interoperability, integration, and capability for reinforcement rather than by additional permanent stationing of substantial combat forces.”¹⁷ While the document as a whole is an agreement between NATO and Russia, this particular paragraph was a unilateral expression of NATO’s position and by no means an agreement between NATO and Russia.¹⁸ Furthermore, it was by nature a political document rather than a legally binding international treaty. In short, the conditions that were introduced on the occasion of the first NATO enlargement after the Cold War, though similar in substance, were less stringent than those in the Two Plus Four Treaty.

It is not yet clear whether the military status of the Northern Territories—including conditions for troop deployment and stationing—needs to be codified in a legally binding treaty or whether a political document would suffice. However, given developments since NATO’s enlargement, including the issues of deploying ballistic missile defense in Poland and Romania and establishing what NATO calls “enhanced forward presence” in Poland and the three Baltic states, which Russia strongly opposes, Moscow might have drawn a lesson that strategically important issues such as these need to be addressed in the most strict terms by legally binding international agreements. The fact that Russia wants to limit the deployment of ballistic missile defenses by legal means can be seen in the same context. For Western observers, the degree to which Russia emphasizes legal instruments in international security looks odd, as the country is often criticized for violating international agreements, including most recently the Intermediate-Range Nuclear Forces Treaty.¹⁹ However, short of resorting to force, codifying demands in legally binding international agreements remains one of the most effective ways to manage international relations, despite all the inherent weaknesses of international law.

The Strategic Dynamics among the United States, Japan, and Russia in the Trump Era

On top of both the China and U.S. factors in Japan-Russia relations, the Donald Trump administration in the United States presents a new challenge and adds an element of uncertainty. U.S.-Russia relations under the Trump administration will influence the parameters of Japan-Russia relations and to a lesser extent of Russia-China relations. At the time of writing, it already appears unlikely that the U.S.-Russia relationship will warm significantly, despite President Trump and his team repeatedly expressing their wish for improved relations. Still, there was initially some degree of hope in Moscow following the Trump victory that Russia’s isolation from the West would be mitigated, possibly including through the partial lifting of sanctions.

¹⁷ *Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation*, May 27, 1997 (Paris). For a discussion of the term “substantial combat forces,” see William Albergue, “Substantial Combat Forces in the Context of NATO-Russia Relations,” NATO Defense College, Research Paper, no. 131, June 2016.

¹⁸ For the most detailed account, see Ronald Asmus, *Opening NATO’s Door: How the Alliance Remade Itself for a New Era* (New York: Columbia University Press, 2004). Because the position was initially expressed in March of the same year, the Founding Act uses the word “reiterate.” For NATO’s original statement, see NATO, “Statement by the North Atlantic Council,” Press Release, March 14, 1997.

¹⁹ Michael Gordon, “Russia Deploys Missile, Violating Treaty and Challenging Trump,” *New York Times*, February 14, 2017; and Amy F. Woolf, “Russian Compliance with the Intermediate Range Nuclear Forces (INF) Treaty: Background and Issues for Congress,” Congressional Research Service, CRS Report to Congress, R43832, January 27, 2017.

Some in Japan argue that the prospect of better—or at least less bad—U.S.-Russia relations already affected Moscow’s calculations vis-à-vis Tokyo, on the assumption that any improvement of U.S.-Russia relations would diminish Japan’s value as a partner for Russia. They also maintain that because of the Trump victory and a possible warming of U.S.-Russia relations, Putin’s visit to Japan in December 2016 did not bring highly anticipated progress in bilateral relations, particularly regarding the territorial negotiations.²⁰ From another perspective, the improvement of U.S.-Russia relations would increase Tokyo’s room for maneuver, and therefore should be seen as a positive development, especially in light of the fact that President Barack Obama was critical of Japan’s overture to Russia until the very end of his term.²¹ Abe stated that he discussed his approach to Russia with Trump when they met in February 2017 and claims to have received a green light from the new administration regarding his plans.²² While one cannot fully deny the possibility that Moscow changed its calculation because of Trump, securing support from the United States is important, particularly because of the military issues in the territorial negotiations between Japan and Russia that were discussed above.

Meanwhile, Japan-Russia relations should not be seen as merely a function of U.S.-Russia relations. Regardless of the state of its relations with Washington, Moscow has its own reasons to reach out to Tokyo, including economic development of the Russian Far East and the desire to maintain autonomy in its engagement in the Asia-Pacific. The fact that the process of Japan-Russia rapprochement started before the Ukraine crisis and Russia’s isolation from the West further indicates that the Japan-Russia relationship has its own dynamic.

Conclusion

As the preceding analysis makes clear, the Japan-Russia relationship can never be dealt with as a purely bilateral issue between the two countries. At the very least, both the China and U.S. factors must be considered. What Tokyo calls the “increasingly severe security environment” in East Asia—i.e., China’s assertive actions—constitutes the basic strategic rationale for Japan’s desire to improve relations with Russia. Furthermore, any possible deal on the return of the disputed Northern Territories will have to address the military status of those islands, thereby raising the question of the application of Article 5 of the U.S.-Japan Security Treaty and of the stationing of U.S. forces on those islands. With respect to these issues, German unification and NATO enlargement may provide useful lessons on what Russia would demand and what could be worked out.

Japan’s objective in negotiations with Russia is to keep multiple strategic options open—not just in terms of addressing the challenges of China’s rise and the implications of closer Sino-Russian relations, but more broadly in navigating the changing strategic environment in East Asia. For this goal to be realized, one indispensable task is to lessen strategic liability and ultimately turn it into a strategic asset. Japan’s efforts to resolve the territorial dispute with Russia and conclude a peace treaty can be understood in this context, not least in view of the seeming re-emergence of a strategic power game between major countries in East Asia.

²⁰ Reiji Yoshida, “Abe-Putin Summit Ends with Economic Deals but No Isle Steps,” *Japan Times*, December 16, 2016; and “Editorial: Abe-Putin Talks Disappoint with No Progress on Territorial Dispute,” *Mainichi*, December 17, 2016.

²¹ Ko Hirano, “Russia-Friendly Trump Likely to Give Abe Leeway on Putin Negotiations,” *Japan Times*, November 20, 2016; and Koya Jibiki, “Nichiro koushou futatsuno souteigai” [Two Unexpected Incidents in the Run-Up to the Japan-Russia Negotiations], *Nihon Keizai Shimbun*, November 20, 2016.

²² “Abe Says Trump Encouraged Him to Boost Ties, Dialogue with Putin,” *Japan Times*, February 14, 2017.

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Sino-Russian Military Cooperation and Japanese Defense Policy

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EXECUTIVE SUMMARY

This essay examines the importance of Russia in Japan's national security strategy and assesses the implications of greater Sino-Russian military cooperation for Japanese defense policy.

MAIN ARGUMENT

The Soviet Union represented the primary threat to Japan's national security during the Cold War. To address this threat, Japan relied on the extended deterrence provided by the U.S. under Article 5 of the U.S.-Japan Security Treaty. The end of the Cold War, however, reduced Japanese perceptions of the threat from Russia, and in recent years Japan has explored opportunities for greater security cooperation as a way to counter China's rise. Most significantly, in November 2013 the two countries held their first two-plus-two meeting, which is a security dialogue formula that Japan had previously only used with the U.S. and Australia. At the same time, since forging a strategic partnership in 1996 and concluding the Sino-Russian Treaty of Friendship in 2001, China and Russia have worked to deepen their military cooperation. Although Russian arms transfers to China have declined since the mid-2000s, the two countries continue to strengthen cooperation on common national security interests—for example, through their Joint Statement on Strengthening Global Strategic Stability in June 2016 and their first naval exercise in the South China Sea in September 2016. Against a backdrop of heightened Russian military activity in the waters and airspace surrounding Japan, this trend of closer Sino-Russian security relations has caused great consternation among Japanese policymakers.

POLICY IMPLICATIONS

- As the expansion of China's anti-access/area-denial capabilities threatens to erode the foundation of the U.S. security commitment in Asia, Japan must continue to upgrade the security alliance to ensure the U.S. military's operational access in East Asia.
- Japan must work to enhance regional security cooperation by expanding its trilateral relationship with the U.S. and South Korea—as well as with the U.S. and Australia—through consultations, joint exercises, and information sharing.
- In order to reduce strategic and operational tensions with Russia, and to dilute the strategic utility of Sino-Russian military relations, Japan should seek opportunities to enhance cooperation in functional areas such as search and rescue, humanitarian assistance and disaster relief, and antiterrorism operations. Enhancing security relations with Vietnam could also provide an opportunity for greater coordination with Russia on capacity building.

The shift in the regional balance of power in Asia is the primary driver of Japan's reorientation of its defense policy. The rise of China, as a core element of this shift, has triggered multidimensional reforms of Japan's defense strategy and postures as well as its defense diplomacy. Although the U.S.-Japan alliance continues to be the bedrock of Japanese security strategy, Japan's expanded security relationships beyond the alliance have become an important pillar of its emerging defense policy concept. Among these expanding relationships is Japanese engagement with Russia, which has been significantly realigned to cope with regional power dynamics.

This essay begins by reviewing Japan's security perception of Russia. It then assesses Japanese concerns over Sino-Russian military cooperation and examines the opportunities and challenges for Japan to enhance security relations with Russia.

An Overview of Russia in Japan's National Security Strategy

Throughout the Cold War, the Soviet Union's military presence in the Far East represented the primary threat to Japan's national security. Under the first National Defense Program Outline in 1976, Japan adopted the "standard defense force concept" (*kibanteki boeiriyoku*) in order to counter "small-scale limited conventional attack" by the Soviet forces.¹ With the limited defense capability of the Japan Self-Defense Forces (JSDF) in the 1970s, Japan's potential military response was confined to a low-end military assault or the early phase of conflict escalation. Thus, the U.S. security guarantee to Japan under the U.S.-Japan Security Treaty (revised in 1960) and the Guidelines for Japan-U.S. Defense Cooperation in 1978 played a dominant role in providing extended deterrence and escalation management vis-à-vis potential military conflict with the Soviet Union.²

During the Cold War, the reliability of extended deterrence in the U.S.-Japan alliance was based on the following three assumptions: (1) the credibility of U.S. engagement with the presence of forward-deployed conventional forces in Japan, (2) avoidance of the unnecessary provocation of the potential adversary into threatening an assault against Japan, and (3) the credibility of nuclear retaliation in the event that such attacks are anticipated against Japan, based on Article 5 of the U.S.-Japan Security Treaty.³ Japan's military role was embedded in sustaining the U.S. presence in Japan through, most symbolically, offering a "three straits defense"—the JSDF's intelligence, surveillance, and reconnaissance effort to restrict the Soviet fleet's ability to maneuver in the Far East through control of the Soya, Tsugaru, and Tsushima Straits.⁴

The end of the Cold War largely reduced Japanese perceptions of the military threat posed by Russia, as the latter shifted away from a policy of the mass mobilization of conventional forces. Japan's 1992 defense white paper, however, anticipated relatively slow progress in decommissioning legacy forces in the Far East compared with the European front under the Treaty of Conventional

¹ Japan Defense Agency, "National Defense Program Outline," October 29, 1976, available at <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/docs/19761029.O1E.html>.

² Japan Defense Agency, "The Guidelines for Japan-U.S. Defense Cooperation," November 27, 1978, available at http://www.mod.go.jp/e/d_act/anpo/19781127.html.

³ Umemoto Tetsuya, "Missile Defense and Extended Deterrence in the Japan U.S. Alliance," *Korean Journal of Defense Analysis* 12, no. 2 (2009): 135–52.

⁴ Mike M. Mochizuki, "Japan's Search for Strategy," *International Security* 8, no.3 (1983/84): 152–79.

Armed Forces in Europe.⁵ Widely perceived uncertainty about Russian military capabilities in the Far East facilitated the decision to maintain the JSDF's force structure on Hokkaido, including the Northern Army of the Japan Ground Self-Defense Force, which still today comprises the largest divisions and brigades.

Nevertheless, the perception of Russia as a military threat has been significantly toned down in Japan's official doctrine in the past two decades. Most notably, the Japanese government began to seek more opportunities to enhance security cooperation with Russia, with the apparent goal of countering Chinese military power in the region. The National Security Strategy and the National Defense Program Guidelines in 2013 characterized Russia as follows:

*Under the increasingly severe security environment in East Asia, it is critical for Japan to advance cooperation with Russia in all areas, including security and energy, thereby enhancing bilateral relations as a whole, in order to ensure its security.*⁶

*Japan will promote security dialogues with Russia, including the Foreign and Defense Ministerial Consultations ("2+2"), high-level exchanges, and unit-to-unit exchanges in order to deepen understanding about the intention of Russian military activities and develop mutual trust with Russia. In addition, Japan will enhance bilateral training and exercises with Russia to promote regional stability.*⁷

In order to realize these objectives, Japan proposed to Russia that the two sides hold two-plus-two defense and foreign ministers' meetings. This marked an extraordinary extension of a security dialogue formula that Japan had previously only used with the United States and Australia. At their first two-plus-two meeting in November 2013, Japan and Russia agreed to exchanges between ground forces, the mutual dispatch of exercise observers on a regular basis, and bilateral exercises between counterpiracy units of the Japan Maritime Self-Defense Force (JMSDF) and the Russian Navy in the Gulf of Aden, as well as the regular hosting of the Japan-Russia Cyber Security Meeting.⁸ In October 2014 the JMSDF carried out bilateral search and rescue exercises with the Russian Navy.

Japan's perceptions of Russia as a potential security partner in countering Chinese power, however, were overshadowed by Russia's re-emerging military activities in the vicinity of Japan, including in the Northern Territories (also known as the Kuril Islands), and increasing Sino-Russian military cooperation. According to Japan's 2016 defense white paper, examples of recent Russian military activities in the area surrounding Japan include joint Sino-Russian exercises and counterpiracy operations carried out by Pacific Fleet vessels and patrols by nuclear-powered submarines. The white paper adds that "in September 2011, 24 naval vessels including a Slava-class guided missile cruiser passed through the Soya Strait in succession. This was the first time since the end of the Cold War that such a major transit of this strait by Russian

⁵ Japan Defense Agency, *Boei Hakusho 1992* [Defense of Japan 1992] (Tokyo, 1992), available at http://www.clearing.mod.go.jp/hakusho_data/1992/w1992_00.html.

⁶ Cabinet Secretariat (Japan), "National Security Strategy," December 17, 2013, http://japan.kantei.go.jp/96_abe/documents/2013/_icsFiles/afiedfile/2013/12/17/NSS.pdf, emphasis added.

⁷ Ministry of Defense (Japan), "National Defense Program Guidelines for FY 2014 and Beyond," December 17, 2013, http://www.mod.go.jp/j/approach/agenda/guideline/2014/pdf/20131217_e2.pdf, emphasis added.

⁸ National Institute for Defense Studies (Japan), "Russia: Japan and Russia Hold First-Ever 'Two-Plus-Two' Meeting of Foreign and Defense Ministers," in *East Asian Strategic Review 2014* (Tokyo, May 2014), 211–54, http://www.nids.mod.go.jp/english/publication/east-asian/pdf/2014/east-asian_e2014_06.pdf.

naval vessels was confirmed.” Similarly, in May 2016 “an expedition unit [of the Pacific Fleet] comprised of approximately 200 personnel began survey activities on Matsuwa Island located roughly in the middle of the Chishima Islands.”⁹

The 2014 defense white paper likewise notes that “since the resumption of the patrol activities by its strategic aviation units in 2007, Russia has been increasing flights by long-range bombers and carrying out flights of Tu-95 long-range bombers and Tu-160 long-range bombers which are refueled in mid-flight and supported by A-50 early warning aircraft and Su-27 fighters.” The report adds that flights close to Japan’s airspace, as well as exercises and drills, are generally increasing, “as exemplified by the abnormal flights of Russian aircraft detected on seven consecutive days and the flights by six individual Tu-95 long-range bombers on a single day between March and April 2014.”¹⁰

The Implications of Sino-Russian Military Cooperation

China and Russia agreed to forge a “strategic partnership” in 1996, and they later concluded the Sino-Russian Treaty of Friendship in 2001, followed by the launch of a bilateral joint military exercise in 2005, the first one in 40 years.¹¹ The deepening of Sino-Russian military cooperation has included Russian arms transfers to China, the strengthening of capabilities for joint operations, and platforms for militarily engaging regional countries, mainly through the Shanghai Cooperation Organisation (SCO).

Some observers have suggested that Sino-Russian military cooperation reached a peak level in the mid-2000s and then declined as both countries faced complex strategic challenges.¹² Russian arms transfers to China totaled \$3.1 billion in 2005 but have sharply declined since 2007, falling to \$0.8 billion in 2015.¹³ In addition, the two sides were not able to coordinate strategically during Russia’s foreign intervention in Georgia in 2008 and Ukraine in 2014, as China had little incentive to offer support. The “asymmetrical interdependence” in Sino-Russian relations provides a structural reason for the mistrust between the two countries, as Russia increasingly perceives China’s growing economic and military power as threats to its strategic interests.¹⁴

Nonetheless, Russia and China continue to pursue strategic coordination when it serves the preferred direction of the national security strategy of both countries. Their Joint Statement on Strengthening Global Strategic Stability in June 2016 expressed their mutual concerns over the strategic advancement of the United States, the Aegis Ashore ballistic missile defense system in Europe, and the possible deployment of the Terminal High Altitude Area Defense (THAAD)

⁹ Ministry of Defense (Japan), *Defense of Japan 2016* (Tokyo, 2016), 78–79, http://www.mod.go.jp/e/publ/w_paper/pdf/2016/DOJ2016_1-2-4_web.pdf.

¹⁰ Ministry of Defense (Japan), *Defense of Japan 2014* (Tokyo, 2014), 59, http://www.mod.go.jp/e/publ/w_paper/pdf/2014/DOJ2014_1-1-4_web_1031.pdf.

¹¹ Ministry of Foreign Affairs of the People’s Republic of China (PRC), “China and Russia: Partnership of Strategic Coordination,” http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18028.shtml.

¹² For example, Shinji Hyodo, “Nichiro shuno kaidan: Tainichi kankei wo kyoka shitai putin, churo mitsugetsu ha misekake” [Japan-Russia Summit: Putin’s intention to strengthen ties with Japan as Russia-China honeymoon faded], *Wedge Infinity*, April 26, 2013.

¹³ Data is available from Stockholm International Peace Research Institute, SIPRI Arms Transfers Database.

¹⁴ See Fu Ying, “How China Sees Russia: Beijing and Moscow Are Close, but Not Allies,” *Foreign Affairs*, January/February 2016; and Jacob Shapiro, “Will Russia and China Become Allies?” *RealClearWorld*, April 8 2016, http://www.realclearworld.com/articles/2016/04/08/will_russia_and_china_become_allies_111802.html.

system in Northeast Asia by the United States and South Korea.¹⁵ China has aimed to create a regional security framework that advances its own view of Asia-Pacific security cooperation, emphasizing its relations with Russia and the role of the SCO.¹⁶ Reflecting mutual strategic needs, Sino-Russian military cooperation has gained momentum in recent years, as demonstrated by the two sides' first naval exercise in the South China Sea in September 2016, their launch of a joint computer-assisted command and staff exercise on missile defense in May 2016, and China's new procurements of Su-35 fighters and purchase of S-400 anti-aircraft missile systems.

Japan has three primary concerns over the development of Sino-Russian military cooperation. First, it worries that Russian arms sales will accelerate the scale and pace of Chinese military capability developments. China's modernization of its air and naval power and missile capability is heightening both its anti-access (A2) capability with regard to areas where core Chinese interests are involved and its area-denial (AD) capability in theaters where U.S. forward-deployed forces had previously boasted uncontested supremacy.¹⁷ For example, China's deployment of fourth-generation fighters recently outnumbered that of the Republic of China Air Force (vis-à-vis Taiwan) and U.S. Forces Japan/Japan Air Self-Defense Force combined (vis-à-vis Japan).¹⁸

The second concern is China's potential operational coordination with Russia on "gray zone" operations that infringe on sovereignty and threaten security without crossing the threshold into full-scale state military interventions. As demonstrated by Japan's National Defense Program Guidelines released in 2010 and 2013, China's maritime coercion in the East China Sea using nonmilitary assets has become a primary security challenge for Japan.¹⁹ The Sino-Russian joint naval exercise in the South China Sea involved a range of amphibious assault operations and demonstrated Chinese resolve on issues of territorial sovereignty. China and Russia might also find strategic utility in joint operations or diversionary tactics by coordinating their operations at sea. In peacetime, such coordination would delay the process of Japan's dynamic reform of the JSDF's posture to emphasize southeast defense, given that Japan would need to prepare for two fronts vis-à-vis Russia and China. In a crisis, Sino-Russian coordinated operations would impose high costs on both the Japan Coast Guard and the JSDF.

Third, Japan has a general concern over Sino-Russian entanglement in major strategic domains. As Japanese security strategy rests on the United States' firm commitment to provide a conventional forward presence, missile defense, and extended nuclear deterrence, any efforts to dilute the effectiveness of the U.S.-Japan alliance and U.S. security partnerships in Asia more broadly would be harmful. In this light, Japan is very concerned that Russia and China have jointly opposed the deployment of the THAAD system in South Korea. Individual approaches taken by China and Russia toward the Philippines, and to some extent Thailand, to take advantage of the deterioration of the U.S. security relationships with those countries are similarly viewed as

¹⁵ "China, Russia Sign Joint Statement on Strengthening Global Strategic Stability," Xinhua, June 26, 2016, http://news.xinhuanet.com/english/2016-06/26/c_135466187.htm.

¹⁶ Ministry of Foreign Affairs (PRC), "China's Policies on Asia-Pacific Security Cooperation," January 11, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1429771.shtml.

¹⁷ Anti-access refers to "action intended to slow deployment of friendly forces into a theater or cause forces to operate from distances farther from the locus of conflict than they would otherwise prefer. A2 affects *movement* to a theater." Area-denial refers to "action intended to impede friendly operations within areas where an adversary cannot or will not prevent access. AD affects *maneuver within* a theater." U.S. Department of Defense, "Air-Sea Battle," May 2013, <http://archive.defense.gov/pubs/ASB-ConceptImplementation-Summary-May-2013.pdf>, emphasis in original.

¹⁸ International Institute for Strategic Studies, *The Military Balance 2017* (London: Routledge, 2017), 278–88.

¹⁹ Ministry of Defense (Japan), "National Defense Program Guidelines for FY 2011 and Beyond," December 17, 2010; and Ministry of Defense (Japan), "National Defense Program Guidelines for FY 2014 and Beyond."

attempts to weaken U.S. security relations more broadly in Southeast Asia. In the nuclear domain, Sino-Russian attempts to limit the United States' extended deterrence commitments to Japan and South Korea would also be a source of concern. It is critical for Japan that the U.S. nuclear posture in Asia not be subject to negotiation with either Russia or China and that under the Trump administration the United States maintain its nuclear doctrine and operational readiness.

Japan's Options for Countering Sino-Russian Military Ties

Japan's approach to mitigating the impact of growing military ties between China and Russia must be multidimensional. The best strategy for Japan is to dilute the utility of Sino-Russian security cooperation in East Asia by complicating Beijing's strategic calculus. If the United States maintains its operational advantage and access in all domains, especially by continuing to secure air and naval superiority, opportunities for the expansion of Sino-Russian strategic cooperation may be limited. However, as China expands its A2/AD capability to limit the access of U.S. forward-deployed forces, the United States' failure to achieve operational access in the region will create opportunities for China and Russia to work together to exploit the new balance of power in their favor.

In this regard, the first priority for Japan is to firmly maintain and strengthen the U.S.-Japan alliance. The Guidelines for Japan-U.S. Defense Cooperation (April 2015) provide an important platform for a "seamless, robust, flexible, and effective" bilateral response.²⁰ The guidelines aim for full-spectrum engagement in conflict dynamics in order to "ensure Japan's peace and security in all phases, seamlessly, from peacetime to contingencies, including situations when an armed attack against Japan is not involved."²¹

The second priority for Japan is to enhance regional security cooperation among U.S. allies and partners. Among them, the security relationship between Japan and South Korea is most important in harmonizing the U.S. forward presence in Northeast Asia. It is critical that the United States, Japan, and South Korea work to expand trilateral security cooperation through various levels of consultation, joint exercises, and information sharing via the trilateral information-sharing arrangement (2014) and the General Security of Military Information Agreement between Japan and South Korea (2016). The U.S.-Japan-Australia trilateral security relationship provides another platform for strategic coordination among like-minded countries. Japan has also boosted security cooperation with the Philippines, another U.S. ally, by helping the Philippine Coast Guard upgrade its maritime domain awareness.²²

A third priority for Japan is to upgrade security relations with Russia. Japan expects that closer ties between Tokyo and Moscow would constrain Beijing's strategic calculus in the region.²³ From the Japanese perspective, Japan-Russia security relations are important for (1) reducing the strategic and operational tensions with Russia to avoid a two-front confrontation, (2) seeking

²⁰ Ministry of Foreign Affairs (Japan), "The Guidelines for Japan-U.S. Defense Cooperation," April 27, 2015, <http://www.mofa.go.jp/files/000078188.pdf>.

²¹ Ibid.

²² See Reinhard Drifte, *Japan's Policy towards the South China Sea: Applying "Proactive Peace Diplomacy"?* PRIF Report, no. 140 (Frankfurt: Peace Research Institute Frankfurt, 2016), https://www.hsfk.de/fileadmin/HSFK/hsfk_publicationen/prif140.pdf; and Céline Pajon, *Japan and the South China Sea: Forging Strategic Partnerships in a Divided Region* (Paris: Institut français des relations internationales, 2013), <https://www.ifri.org/sites/default/files/atoms/files/asievisions60celinepajon.pdf>.

²³ See Yasuhiro Izumikawa, "Japan's Approach to Russia under Shinzo Abe: A Strategic Perspective," in *Japan-Russia Relations: Implications for the U.S.-Japan Alliance*, ed. Gilbert Rozman (Washington, D.C.: Sasakawa Peace Foundation USA, 2016), 61–70.

opportunities to enhance functional areas such as search and rescue, humanitarian assistance and disaster relief, and antiterrorism operations, and (3) diversifying Russia's security relations in East Asia beyond cooperation with China. Japan's enhanced security relations with Vietnam may also provide an opportunity for Japan-Russia coordination on Vietnamese capacity building. Russia is Vietnam's primary supplier of military equipment and training assistance, and likely will remain so. Japan, meanwhile, has supplied Vietnam with ships and other maritime equipment and seeks to develop stronger military-to-military relations.²⁴

As reflected in the three priorities discussed above, Japan's overarching strategic motivation is to dilute the utility of Sino-Russian military cooperation. With the expansion of China's A2/AD capabilities challenging the foundation of the U.S. security commitment in Asia, Japan will continue to upgrade the U.S.-Japan alliance to ensure the U.S. military's operational access in East Asia. At the same time, Japan will try to penetrate every possible dimension of Sino-Russian relations, including trade, investment, and energy, while working to expand military cooperation with Russia, especially where the strategic interests of China and Russia diverge (e.g., on Vietnam).

²⁴ "Japan Seeks Closer Military Ties with Philippines, Vietnam," Sputnik News, August 12, 2016, <https://sputniknews.com/asia/201608121044182336-japan-partnership-philippines-vietnam>.

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Sino-Russian Energy Relations in Northeast Asia and Beyond: Oil, Natural Gas, and Nuclear Power

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EXECUTIVE SUMMARY

This essay examines the background, current state, and future challenges of Sino-Russian energy relations.

MAIN ARGUMENT

Russia has expedited efforts to increase its presence in the Asia-Pacific amid serious challenges to its energy sector, including geographic constraints of domestic hydrocarbon production and the U.S. shale gas revolution. In particular, Russia has sought out new market opportunities for its oil and gas exports while it gradually works to shift domestic production centers to its eastern regions. Yet although Russian oil exports to China rose dramatically in the past decade, there remain uncertainties with regard to how much further Russia can increase the volume of its overall oil supplies in the near future despite the sufficiency of its export infrastructure. On the other hand, Russia's infrastructure for gas exports from its eastern regions is still inadequate at a time of intensifying competition for the regional gas market. Finally, whereas Sino-Russian interests generally converge in the oil and gas sectors, the two countries' interests in the nuclear sector are increasingly divergent.

POLICY IMPLICATIONS

- Sino-Russian interdependence has significantly deepened in the oil sector in recent years, whereas bilateral cooperation in the gas sector is just now slowly emerging. The development of the Sino-Russian partnership in the oil and gas sectors should not be a matter of concern for any country, including Japan and the U.S., given that it would entail positive effects on the stability of the regional as well as the international energy market.
- As a latecomer to the Northeast Asian energy market, Russia cannot use oil and gas exports as diplomatic leverage in the region. Instead, China could take the lead in designing the way in which Russia is effectively engaged.
- The potential intensification of Sino-Russian competition in civilian nuclear markets should concern the West. Unless relevant measures to maintain rigid control over the diffusion of sensitive nuclear technologies and materials are implemented internationally in a timely manner, such competition could erode the global nonproliferation regime.

In the first decade-plus of the 21st century, a dramatic change took place in the Northeast Asian energy market. China is now not simply the region's largest consumer of energy but also became the world's largest consumer in 2009. Coincidentally, Russia made a striking debut in the regional energy market when it began to supply oil and gas from its eastern Siberian and Far Eastern regions (hereafter abbreviated as "the eastern regions"). In large part due to geographic proximity, Northeast Asia has become the predominant recipient of Russia's new supplies. As of 2016, Russia topped the list of crude oil exporters to China; and Russia accounted for 6% of Japan's crude oil and 9% of its liquefied natural gas (LNG) imports.¹

Yet how much and how quickly Russia can further increase its influence in the Northeast Asian energy market still remains highly uncertain despite Moscow's outright strategy to do so. First, Russia has its own physical constraints, including geographic, geological, and other barriers, such as insufficient infrastructure, to drastically increasing the quantities of oil and gas exports from the eastern regions. Second, the window of opportunity for tapping regional markets is gradually narrowing due to the loosening supply-demand balance of global oil and gas markets, especially against the backdrop of the U.S. shale revolution. Third, China, rather than Russia, now plays the decisive role in determining the future scale of Russia's presence in Northeast Asia's energy sector because China provides the only growing energy market in the region.

The development of closer Sino-Russian relations has alarmed Western policy communities. China and Russia are the two main revisionist powers and share a general interest in attempting to dismantle the existing international order, which they believe is under the United States' influence. However, uncertainties persist over the extent to which Beijing and Moscow could find coherent and consistent policies even if the two occasionally were to make ad hoc policy adjustments. Thus far, Sino-Russian energy cooperation has been most advanced in the oil sector, followed by the gas sector. On the other hand, bilateral relations in the nuclear sector, which originally were cooperative, have gradually become competitive in nature, given that China is also becoming a state-backed supplier of nuclear reactors in the global nuclear market.

Energy is a priority area for economic cooperation in Japanese-Russian relations as well. Russia is one of the few alternative import sources for Japan to reduce its oil dependence on the Middle East. From a political standpoint, Tokyo has intended to use energy cooperation as one of its bargaining tools in the negotiation over the Northern Territories. Meanwhile, from a geopolitical standpoint, Moscow has hoped that Japan would relatively offset China's influence—both as a source of investment to develop the eastern regions and as a destination for exports of strategic goods, namely, oil and natural gas.

This essay examines the background, current state, and future challenges of Sino-Russian energy relations. The first and second sections, respectively, assess Russia's incentives for and achievements in expanding its presence in Northeast Asian oil and gas markets, with an emphasis on the development of Sino-Russian cooperation. The third section then explores the gradually competitive nature of the Chinese and Russian presence in the global nuclear market.

¹ China Oil, Gas, and Petrochemicals (information service), Xinhua, February 15, 2017; and Ministry of Finance (Japan), Trade Statistics of Japan website.

Why Does Russia Look East?

One of the reasons Russia has accelerated efforts to increase its presence in the Asia-Pacific region derives from the fact that the future of its oil and gas sectors largely depends on the extent to which it can seize new market opportunities by exploiting the untapped oil and gas resources in the eastern flank of the country.² The oil and gas sectors are vital for the survival of Russia's economy, given that they accounted for 43% of the government budget³ and 53% of total exports as recently as 2015.⁴ The center of gravity in the global energy market has shifted to Asia, predominantly led by surging demand from China and India. By contrast, oil and gas demand in Europe, traditionally the main destination for Russia's exports, is projected to decrease. The *World Energy Outlook 2016*, published by the International Energy Agency (IEA), predicts that oil demand from the European Union will decline at the compound average annual rate of -4.2% in 2015–40. Likewise, the EU's natural gas demand is expected to peak at 473 billion cubic meters (bcm) in 2025–30 and thereafter decrease to 452 bcm in 2040.⁵

Second, the productivity of major oil and gas fields in western Siberia, Russia's traditional bastion of hydrocarbon reserves, is gradually declining. This is a more serious problem for crude oil production. Since the mid-2000s, the growth of crude production in the eastern regions has made up for the decreasing supplies from western Siberia.⁶

Third, Russia regards economic underdevelopment in the eastern regions, which account for approximately 60% of the country's territory, as a geopolitical disadvantage vis-à-vis China. The latter has steadily increased its economic, political, and military muscle, causing widespread anxiety in Russia about the expansion of China's demographic and economic influence over the eastern regions.⁷

Fourth, the EU has gradually redoubled its efforts to reduce its oil and gas dependence on Russia against the backdrop of the Ukrainian crisis, especially after Russia's illegal annexation of Crimea in 2014. Diversification of gas import routes is one of the primary goals in the EU's energy strategy.⁸ While Russia increased its gas exports to Europe by around 13% year-on-year in 2016, it could still export more gas to the European market to some extent as far as internationally competitive prices are offered.⁹ With other conditions remaining the same, however, Russia is no longer necessarily the first preference as a source of gas imports for many members of the EU.

² For detailed analyses of Russia's so-called pivot to Asia, see Shoichi Itoh and Andrew Kuchins, "The Energy Factor in Russia's 'Asia Pivot,'" in *Energy Security in Asia and Eurasia*, ed. Mike M. Mochizuki and Deepa M. Ollapally (New York: Routledge, 2016), 140–62; Shoichi Itoh, "Sino-Japanese Competition over Russian Oil," in *Eurasia's Ascent in Energy and Geopolitics: Rivalry or Partnership for China, Russia and Central Asia?* ed. Robert E. Bedeski and Niklas Swanström (New York: Routledge, 2012), 158–78; and Shoichi Itoh, *Russia Looks East: Energy Markets and Geopolitics in Northeast Asia* (Washington, D.C.: Center for Strategic and International Studies [CSIS], 2011).

³ Svetlana Bocharova, Olga Volkova, and Ivan Tkachev, "Dolya neftegazovykh dokhodov v byudzhete Rossii upla do semiletnevo urovnya" [The Share of Oil and Gas Revenues in the Russian Budget Fell to a Seven-Year Low], *RBC Daily*, March 24, 2017, <http://www.rbc.ru/economics/24/03/2016/56f32a639a794756a61f301e>.

⁴ Federal Customs Office (Russia), "Tamozhennaya statistika vneshnei torgovli" [Customs Statistics of External Trade].

⁵ International Energy Agency (IEA), *World Energy Outlook 2016* (Paris: IEA, 2016), 115, 169. All data cited from the *World Energy Outlook 2016* hereafter is based on the IEA's "new policies scenario."

⁶ Itoh, *Russia Looks East*, 4–15.

⁷ *Ibid.*, 37–43.

⁸ European Commission, "Energy Security Strategy," <https://ec.europa.eu/energy/en/topics/energy-strategy/energy-security-strategy>.

⁹ "Gazprom's Gas Exports to Europe Hit an All-Time High for the Gas Industry in 2016, Totaling 179.3 Billion Cubic Meters," Gazprom, <http://www.gazprom.com/press/news/miller-journal/232849>.

Russia in Northeast Asian Energy Markets

Crude Oil

In December 2009 the first crude oil tanker sailed from the Kozmino port, located on the Pacific side of the Primorsk region in the continental Far East, with the completion of the 2,800 kilometer (km) first phase of the Eastern Siberia–Pacific Ocean (ESPO) crude oil pipeline. Subsequently, a 1,000 km spur pipeline was completed in September 2010 with a maximum capacity of delivering 15 million tons per annum, or 0.3 million barrel per day (mbd), from the eastern end of the first phase (Skovorodino in the Irkutsk region) to Daqing in the Heilongjiang Province of China. The completion of the second phase of the ESPO pipeline in December 2012, which expanded it by another 2,000 km eastward from Skovorodino, increased the pipeline’s maximum capacity for transporting crude oil to the Kozmino port to 30 million tons per annum (0.6 mbd) (see **Figure 1**).¹⁰ China National Petroleum Corporation (CNPC) started to build a second spur pipeline in August 2016, parallel to the existing pipeline from Mohe on China’s border to Daqing. The project is planned for completion in 2017 and will add a maximum capacity of 15 million tons per annum (0.3 mbd) of crude deliveries to China.¹¹

FIGURE 1 The ESPO pipeline



SOURCE: Illustrated by the author.

¹⁰ Prior to the completion of this second phase, approximately 15 million tons of crude oil were shipped by rail from Skovorodino to the Kozmino port.

¹¹ The total designed maximum capacity of crude deliveries to China by the two spur pipelines is 30 million tons per annum. See Joanna Law, “China, Russia’s Second Domestic Oil Pipeline Project Starts: CNPC,” *People’s Daily Online*, August 17, 2016, <http://en.people.cn/n3/2016/0817/c90000-9101661.html>.

The IEA estimates that China's oil demand will increase from 11.0 mbd in 2015 to 15.1 mbd in 2040.¹² Its dependence on oil imports increased from 30% in 2000 to 60% in 2015, and is projected to rise to around 80% by 2030. During this time frame, Russia's crude exports to China increased from 8.0 million tons (0.16 mbd) in 2005 to 38.6 million tons (0.77 mbd) in 2015.¹³ Accordingly, Russia has steadily increased its share in China's portfolio of oil imports in recent years and accounted for 14% as of 2016.¹⁴

Russia and China have signed long-term contracts for crude oil deliveries, with the latter agreeing to prepayments and loans to rescue the former from financial difficulties. Amid Russia's serious economic recession during the global financial crisis, Moscow and Beijing signed an intergovernmental agreement in April 2009 under which Russia would supply 15 million tons per annum for 20 years to China, while China provided a \$15 billion loan to Rosneft, a Russian state-owned oil company, and a \$10 billion loan to Transneft, a Russian state-owned oil pipeline monopoly.¹⁵ Most significantly, in June 2013, Rosneft and CNPC signed an agreement under which Rosneft would supply CNPC with 360 million tons of oil over 25 years in exchange for \$270 billion.¹⁶

With increased imports from Russia, Japan could also relatively decrease its dependence on the Middle East. Russia's crude oil exports to Japan increased from 1.4 million tons (0.03 mbd) in 2005 to 14.6 million tons (0.29 mbd) in 2015.¹⁷ With the beginning of exports via the ESPO pipeline, Russia's share in Japan's portfolio of crude oil imports fluctuated between 4% and 10% in 2010–16, reflecting market conditions. Unlike the Sino-Russian energy relationship, which is largely based on long-term contracts, Japan imports oil from Russia on the spot market as a rule. Given that Japan's oil demand has already virtually peaked, even if Tokyo is interested in further diversification of oil supply routes, how much Russia can increase its presence in Japan's portfolio depends on the availability of its oil on the spot market at internationally competitive prices.

Overall, Russia's crude oil exports to Northeast Asia, including China, Japan, and South Korea, increased from around 10 million tons (0.2 mbd) in 2005 to around 66 million tons (1.3 mbd) in 2015. This includes oil transported by the ESPO pipeline, by tankers from the Sakhalin-1 and the Sakhalin-2 projects, and by rail to China.¹⁸ Although Russia is planning to increase the maximum capacity of the ESPO pipeline to transport oil to the Kozmino port to 50 million tons per annum by 2020, how much additional volume will flow into the international market in the foreseeable future remains to be seen.

Unlike the traditional bastion of oil production in western Siberia, which includes a range of large-sized oil fields, eastern Siberia has only small- or at most medium-sized oil fields dispersed across its vast terrain. Russia still must explore considerable amounts of unproven resources in the eastern regions in order to ramp up proven reserves that are available for commercial production. Because of high investment costs, the region's harsh climate, and geological difficulties, among

¹² China's oil demand is forecast to overtake that of the United States by the early 2030s. IEA, *World Energy Outlook 2016*.

¹³ Federal Customs Office (Russia), "Tamozhennaya statistika vneshnei torgovli."

¹⁴ China Oil, Gas, and Petrochemicals (information service), Xinhua, February 15, 2017.

¹⁵ Based on this agreement, Rosneft finalized a contract with CNPC in January 2011.

¹⁶ Courtney Weaver and Neil Buckley, "Russia and China Agree \$270bn Oil Deal," *Financial Times*, June 21, 2013, <https://www.ft.com/content/ebc10e76-da55-11e2-a237-00144feab7de>.

¹⁷ Federal Customs Office (Russia), "Tamozhennaya statistika vneshnei torgovli."

¹⁸ *Ibid.*

other challenges, Russia has seriously underinvested in developing greenfield oil deposits in eastern Siberia, notwithstanding Moscow's ambition to steadily increase crude oil exports to the Asia-Pacific. Given that most prospective increases in crude production in eastern Siberia need to be used to fulfill long-term contracts with China, the availability of additional supplies for non-Chinese buyers on the spot market, such as Japan, will be very limited for some time.

Natural Gas

In March 2009 the first LNG cargo was loaded from the Sakhalin-2 project, destined for the Japanese market. This project, having the initial installed liquefaction capacity of 9.6 million tons per annum, is one of the two biggest examples of energy cooperation between Japan and Russia, other than the Sakhalin-1 project, dating back to the Soviet period during the 1970s, and it is Russia's only LNG export facility in operation as of 2017.

Expansion of the Sakhalin-2 project's liquefaction capacity by installing a third train is currently planned. Yet a third of the gas that will be fed into this expansion will need to be supplied from gas deposits located near the Sakhalin-3 project, whose development is currently delayed by U.S. economic sanctions. The other two LNG projects that were proposed for study prior to the Ukrainian crisis have stalled. Gazprom's Vladivostok LNG project has been virtually canceled. The Exxon-Rosneft joint LNG project, aiming to export natural gas produced in the Sakhalin-1 project, has also been shelved as a result of the U.S. economic sanctions.¹⁹

The Yamal LNG project, which has the export capacity of 16.5 million tons per annum, is currently under construction.²⁰ In May 2014, CNPC, which owns a 20% stake in this project, signed a twenty-year sales contract with its operator Novatek, a Russian independent gas producer, to purchase 3 million tons per annum of LNG.²¹ The Yamal project originally planned to ship its first cargo in 2017 but now is not expected to come into operation until 2021.

Apart from the Yamal LNG project, Sino-Russian gas talks have not developed as much as official agreements between Moscow and Beijing might suggest. As is the case with the oil sector, China and Russia are natural partners in the gas sector, given the complementarity of their needs: Russia has huge untapped gas resources in its eastern flank, while China has surging gas demand. The IEA forecasts that China's gas consumption will increase from 188 bcm in 2014 to 605 bcm in 2040, with a compound average annual growth rate of 4.6%. However, Sino-Russian gas projects largely remain on paper to date.²²

In May 2014, Gazprom and CNPC signed a contract to deliver up to 38 bcm per annum of natural gas beginning in 2018 by constructing a 4,000 km pipeline (Power of Siberia-1) from the Chayanda gas field in the Sakha Republic to China's northeastern region. Reportedly worth \$400 billion, the deal made headlines around the world.²³ However, the building of the pipeline and development of the Chayanda gas field have fallen seriously behind schedule, and a timetable for beginning piped-gas exports has yet to be finalized.

¹⁹ Exxon Mobil's subsidiary, Exxon Neftegaz Ltd., is the Sakhalin-1 project's operator and holds a 30% stake.

²⁰ This project is a joint-venture of Novatek (50.1%), Total (20.0%), CNPC (20.0%), and the Silk Road Fund (9.9%).

²¹ During President Vladimir Putin's visit to Japan in December 2016, Japan Bank for International Cooperation signed a loan agreement with Joint Stock Company Yamal LNG for the maximum amount of 200 million euros as a part of an international loan syndicate that includes the Italian export credit agency SACE and the French export credit agency Coface.

²² IEA, *World Energy Outlook 2016*.

²³ See, for example, Lucy Hornby and Jamil Anderlini, "China and Russia Sign \$400bn Gas Deal," *Financial Times*, May 22, 2017.

Gazprom and CNPC have contemplated the construction of the so-called Altai pipeline (Power of Siberia-2)—a 2,600 km pipeline with a maximum capacity of 30 bcm per annum from Western Siberia to China's western region—for more than a decade, but no concrete blueprint for the project is available. In a similar way, the Sino-Russian intergovernmental agreement in September 2015 to supply piped gas from the Sakhalin Island to the northeastern provinces of China is also no more than political rhetoric.

China has already contracted sufficient gas imports to successfully diversify its supply routes. Thus, it is in no hurry to purchase piped gas from Russia. Whereas Russia would never be able to formulate a gas export policy that does not include China as the biggest market in Asia, China would have no problem satisfying its growing gas demand without any supply from Russia, at least until around 2030. For example, China plans to more than double its import of piped natural gas from Central Asia (mostly Turkmenistan) from approximately 30 bcm in 2015 to 65 bcm by 2020.²⁴ China also started to import natural gas from Myanmar by pipeline in 2015, with a maximum capacity of 4.5 bcm per annum. Besides, LNG receiving terminals have mushroomed in China's coastal areas in recent years, with the total receiving capacity increasing to approximately 56 bcm at thirteen terminals by the end of 2015.²⁵ New LNG terminals in the planning stage are being overhauled due to excessive supplies of imported gas vis-à-vis expected demand. CNPC predicts that China's natural gas demand will increase to 290 bcm, while its supply capacity will ramp up to 340 bcm by 2020.²⁶

Furthermore, the shale gas development plan released by China's National Energy Administration in September 2016 aims to increase domestic shale gas production to 30 bcm in 2020 and to 80–100 bcm in 2030.²⁷ Notwithstanding the problems and uncertainties that must be overcome to realize such drastic increases, global energy experts are becoming more optimistic with regard to the future production of unconventional gas, including shale gas, in China after the mid-2020s.²⁸ China basically can maintain a wait-and-see posture regarding negotiations with Russia on gas imports, including on the question of pricing.

A number of new LNG projects are planned to come online in the global market toward the end of this decade. Approximately 75% of this additional capacity (over 150 bcm) for international sales is located in Australia and the United States.²⁹ The first LNG exports from the contiguous United States arrived in Japan in January 2017.³⁰ The total sum of the purchasing contracts with U.S. LNG projects already signed by Japanese companies is estimated to equal

²⁴ CNPC, "Flow of Natural Gas from Central Asia," <http://www.cnpc.com.cn/en/FlowofnaturalgasfromCentralAsia/FlowofnaturalgasfromCentralAsia2.shtml>.

²⁵ IEA, *Medium-Term Natural Gas Report 2016* (Paris: IEA, 2016), 112.

²⁶ Feng Chenyue, "China's Natural Gas Market Overview" (presented at the 10th IEEJ/CNPC Research Meeting, Tokyo, November 9, 2016).

²⁷ "Yeyanqi fazhan guihua 2016–20 nian fabu mingque fazhan zhongdian fangxiang" [Announcement of the Shale Gas Development Plan (2016–20) Clarifies the Focus of the Development], *Zhongguo xinwen wang*, <http://www.chinanews.com/ny/2016/09-30/8020636.shtml>.

²⁸ Author's extensive interviews with energy experts globally.

²⁹ Following the Gorgon project (train 2, or T2) shipping the first cargo in 2016, Australia will start LNG exports from the Wheatstone project and Gorgon's other project (T3) in 2017 and from the Prelude project and the Ichthys project (T1 and T2) in 2018. From the United States, the Cove Point LNG and the Sabine Pass (T3 and T4) projects will begin shipping LNG cargos abroad in 2017, and the Freeport LNG (T1, T2, and T3), the Corpus Christi LNG (T1 and T2), the Sabine Pass (T5), and the Cameron LNG (T1, T2, and T3) projects will do so in 2018. IEA, *Medium-Term Natural Gas Report 2016*, 109.

³⁰ Takashi Nishioka and Satoru Nihei, "Shale Gas Shipment Heralds New Era for Japan's LNG Market," *Nikkei Asia Review*, January 7, 2017, <http://asia.nikkei.com/Business/Trends/Shale-gas-shipment-heralds-new-era-for-japan-s-lng-market>.

more than 14% of Japan's LNG imports in 2016.³¹ In the meantime, the volume of Japan's LNG imports, which jumped dramatically following the shutdown of the country's nuclear fleet after the accident at the Fukushima Daiichi nuclear power plant in March 2011, had already decreased by 4% year-on-year in 2015. The IEA forecasts that Japan's natural gas demand will plateau at around 80 million tons of oil equivalent in 2020–40.³²

Unlike in the oil sector, Russia still lacks the necessary export infrastructure to make the best use of the main gas fields in eastern Siberia, namely the Chayanda and the Kovykta gas fields (see **Figure 2**). Notwithstanding the Eastern Gas Program, which highlights plans for exports from these gas fields, virtually all of Gazprom's planned projects, including the construction of Power of Siberia–1, are far behind schedule. At the same time, Russia's gas strategy is facing considerable headwind in the international gas market, which is drastically changing amid the U.S. shale gas revolution.

New Dimension of Sino-Russian Energy Relations

The Sino-Russian energy partnership also includes the nuclear energy sector. Construction of the Tianwan nuclear power plant in Jiangsu Province has been a symbol of bilateral nuclear cooperation since the late 1990s, and the plant's two nuclear reactors went into operation in 2007. However, a rivalry between China and Russia is gradually emerging in the global nuclear market, despite the fact that both sides endorsed further cooperation, including joint operations in third countries.³³

The Chinese nuclear industry has entered a new stage characterized by the increasing localization of international nuclear technologies as a result of joint projects with foreign vendors that are eager to maintain and even augment their business stakes in China's rapidly growing domestic nuclear market. The number of nuclear reactors in China is projected to overtake that of the United States by the 2030s.³⁴ The 13th Five-Year Plan (2016–20) identifies the nuclear industry as a priority area for finding export opportunities, together with advancing localization of nuclear technologies, with the Hualong-1 reactor as a model. China's "nuclear diplomacy" has spread almost along the map of its One Belt, One Road policy. For example, nuclear cooperation was prioritized in negotiations during President Xi Jinping's visits to Iran, Saudi Arabia, and Egypt in January 2016.

Chinese nuclear vendors, including China National Nuclear Corporation, China General Nuclear Power Group, the State Nuclear Power Technology Corporation, and China Nuclear Engineering Group Corporation, have signed a range of agreements and memoranda of understanding with companies aspiring to acquire nuclear reactors or to increase their

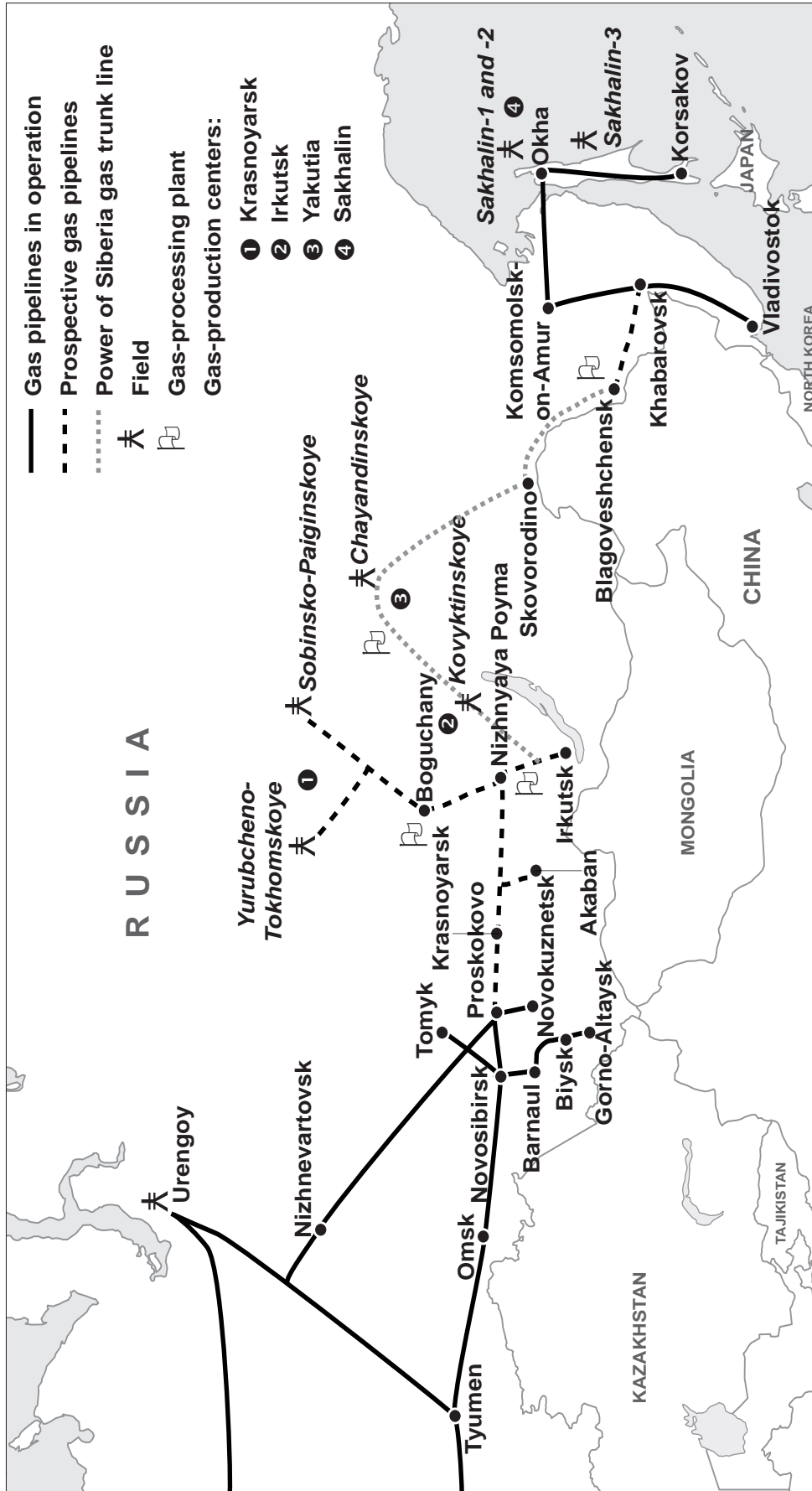
³¹ Shinya Tanaka, Hiroshi Hashimoto, and Takeshi Yoshiyasu, "Global LNG shijou no kouzou henka" [Structural Shifts in the Global LNG Market], Institute of Energy Economics, Japan, March 2016. Most projects have twenty-year contract terms, starting in the late 2010s or the early 2020s. By my calculation based on various sources, the amount is estimated to equal more than 20% if it includes new projects that have Japanese stakeholders but are yet to reach final investment decisions.

³² IEA, *World Energy Outlook 2016*, 578.

³³ "Press Statements Following Russian-Chinese Talks," President of Russia website, June 25, 2016, <http://en.kremlin.ru/events/president/transcripts/52273>.

³⁴ As of March 2017, China had 36 nuclear reactors in operation and 21 under construction, with plans to double its nuclear power capacity to at least 58 gigawatts-electric (GWe) by 2020–21 and to 150 GWe by 2030. The United States has 99 nuclear reactors with a total installed capacity of around 100 GWe today. "Nuclear Power in China," World Nuclear Association, <http://www.world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx>; and "Nuclear Power in the USA," World Nuclear Association, <http://www.world-nuclear.org/information-library/country-profiles/countries-t-z/usa-nuclear-power.aspx>.

FIGURE 2 Gas resources and pipeline plans in eastern Siberia and the Russian Far East



SOURCE: Gazprom, "Power of Siberia," October 25, 2016, http://www.gazprom.com/f/posts/69/808097/map_sila_sib_e2016-10-25_1.png.

number of reactors in emerging economies, including the Middle East, Africa, Southeast Asia, Latin America, and Eastern and Central Europe. Chinese vendors are state-owned and thus have a significant advantage in negotiating prices in commercial deals over non-state-owned vendors, such as Japanese and U.S. companies, which are gradually becoming less competitive in the international civilian nuclear market. The enhancement of China's presence in this market is a rising concern not only for Japanese and Western suppliers, including U.S. and French vendors, but also for Russia's state-owned nuclear vendor, Rosatom. Given that nuclear reactors are among Russia's most internationally competitive commercial items other than oil, gas, rockets, and weaponry, Rosatom has stepped up efforts to boost its exports of reactors amid the geographic expansion of the civilian use of nuclear power. Russia also cannot help but find China's increasing presence in the international civilian nuclear market a rising threat to its own interests.

The geographic areas and countries in which Russia has a traditional stake, partly dating back to the Soviet period, and finds new markets largely overlap with those that China has targeted for exporting nuclear reactors (see **Figure 3**). Thus, competition between China and Russia in the global nuclear market is likely to escalate in the coming decades.³⁵ In the meantime, if increasing the export of nuclear reactors becomes a goal in its own right, it may well heighten the risk of nuclear proliferation. Geopolitical ambition often outweighs pure economic or energy needs in some of the countries, such as Iran, Saudi Arabia, and Egypt, that have expressed interest in purchasing Chinese or Russian reactors.

Conclusion

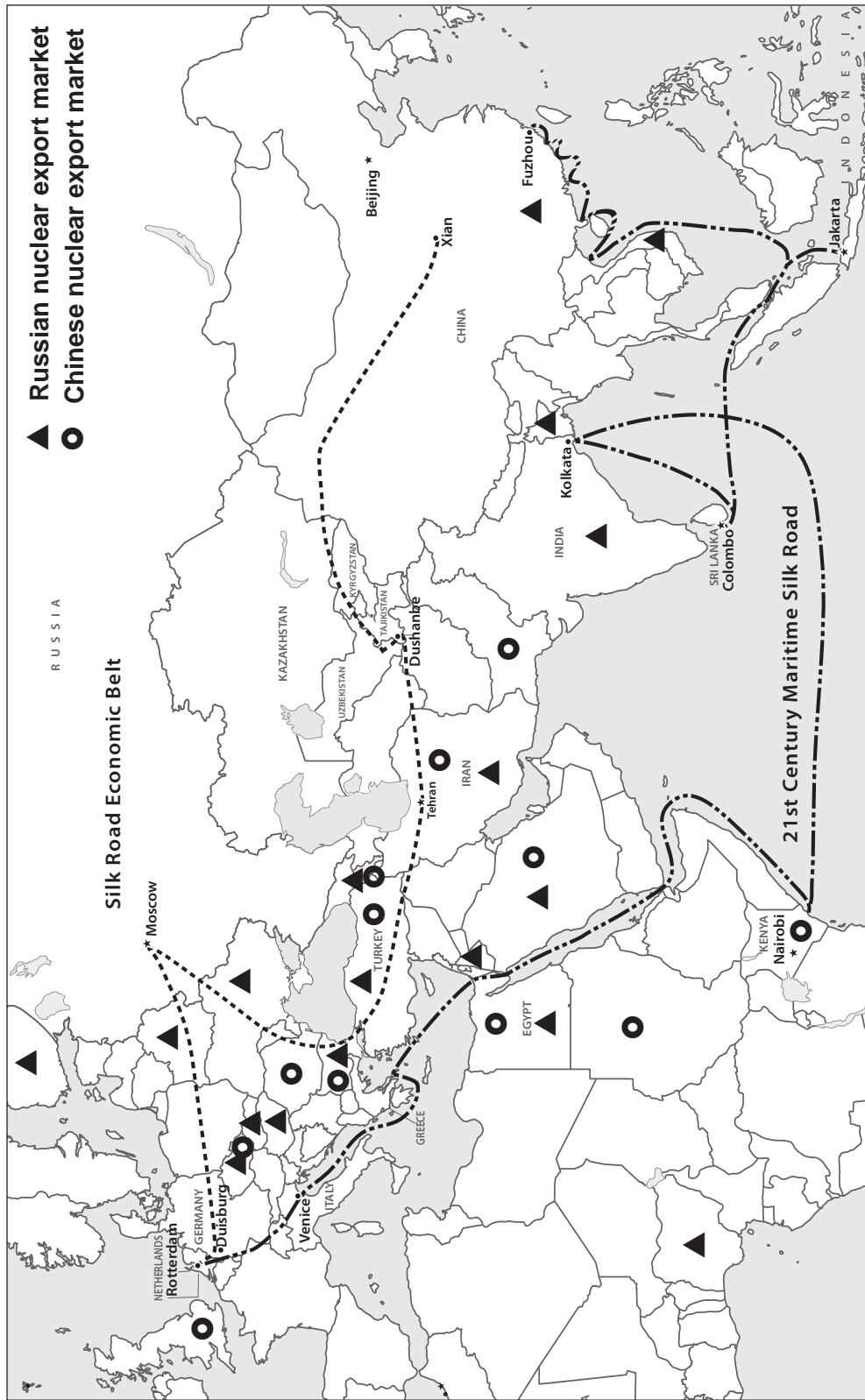
Russia already has basic infrastructure to export oil to the Northeast Asian market. How much more it can increase its share in the regional oil market depends on the extent to which Russia can ramp up crude production for export (mainly via the ESPO pipeline) at internationally competitive prices. Availability for the spot market is also essential for non-Chinese buyers, including Japan, although uncertainties remain regarding the further increases of crude production in the eastern regions, including a number of preconditions such as drastic improvement of the investment climate and higher oil prices.

In contrast to the oil sector, Russia's natural gas export infrastructure is still insufficient to make use of the country's hitherto largely underdeveloped gas resources in the eastern regions. Completion of the Power of Siberia-1 pipeline to transport gas to China has been seriously delayed, and China has already established robust gas supply chains from other regions for the foreseeable future in advance of piped gas deliveries beginning from Russia. The impact of the U.S. shale gas revolution, leading to a supply glut in the international LNG market, is also significant. Nonetheless, Russia hopes to galvanize gas production in the eastern regions through increasing exports to the Asia-Pacific market in the near future.

In short, the conceivable scale of Russia's heightened presence in the Northeast Asian energy market fundamentally depends on how China, being the sole growing energy consumer in the region, designs its own supply system. In this context, it is clear that China has time on its side. The extent to which Japan could have an impact on regional market dynamics is very limited given

³⁵ Shoichi Itoh, "Changing Dynamics in the Global Nuclear Industry and Geopolitical Implications" (presentation at the conference "Nuclear Energy at a Crossroads" hosted by CSIS, Washington, D.C., October 24, 2016).

FIGURE 3 Increasing presence by China and Russia in the civilian nuclear market



SOURCE: Illustrated by the author.

NOTE: Reactors are in operation, under construction, in planning, or under negotiation. Not all countries where Chinese or Russian reactors are under negotiation, in planning, or under construction are marked.

that its oil demand has already peaked and natural gas demand is almost peaking, in stark contrast with China's surging energy demand.

In sum, Sino-Russian energy interdependence has continued to deepen in the oil sector and is inevitable in the natural gas sector in the decades to come, which would have a favorable impact on the stability of both the regional and global markets. However, the emerging competition between Beijing and Moscow in the global nuclear market is a rising concern for the international community because new entrants into the nuclear markets are sometimes seeking to acquire reactors to advance political ambitions.



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