

## **Chapter 6**

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### **Russia: President Putin's Visit to Japan**

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Russia currently faces not only severe economic and financial conditions, but also an ongoing confrontation with the Western nations stemming from the Ukraine crisis. Amid this situation, the Kremlin is seen to be pursuing carefully thought-out policies on both the domestic and foreign relations fronts from the perspective of governance over the medium-to-long term. In the election of deputies of the State Duma (the lower house of the Federal Assembly of Russia) held in September 2016, the ruling United Russia party won an overwhelming majority of seats. During the year, the administration also demonstrated its willingness to elevate younger officials to positions of influence. These developments could imply that President Vladimir Putin has begun laying the groundwork for a political framework that will enable the administration to continue functioning effectively even if he himself leaves the political arena.

On the diplomatic front, while the situation remains tense in Eastern Europe, the Putin administration continues to take steps to enhance Russia's presence on the international stage through military operations and diplomatic negotiations relating to the Syrian crisis. While welcoming the start of the new administration of President Donald Trump—who has been calling for better relations with Russia—the Putin administration shows no signs of abandoning its cautious stance regarding concrete steps toward the normalization of relations between the two countries.

In its relationships with the nations of East Asia, the Kremlin continues to seek stronger working relations with China, which it regards as an important partner, while at the same time taking steps to avoid an over-reliance on China and to build a sustainable relationship with Japan. In this way, the Putin administration is seeking to increase its influence over the region by inducing both China and Japan to view Russia as an important player in international relations. Against this backdrop, on December 15–16, 2016, Putin paid his first visit in eleven years to Japan as president of Russia, holding a two-day summit meeting with Prime Minister Shinzo Abe.

At this summit, the two leaders reached an agreement that the commencement of discussions between Japan and Russia on joint economic activities in the Northern Territories would constitute an important step toward the signing of a peace treaty. Additionally, Prime Minister Abe stressed the importance of security dialogues between the two countries in the face of increasing threats to the security

of the Asia-Pacific region, and the two leaders agreed to continue promoting dialogue between their respective security councils as well as various exchanges in the defense field. The leaders also hold in common the view that close collaboration between Russia and Japan is an important element in stabilizing the security environment in the East Asian region, and for this purpose the normalization of Russo-Japanese relations through the signing of a peace treaty will be essential.

Despite the severity of the country's economic and financial condition, the Kremlin is doing its best to secure adequate defense spending, in view of the weight laid on Russia's military capability as an important asset in both the foreign relations and industrial spheres. Russia is continuing to strengthen its naval capabilities in anti-access/area denial (A2/AD), in view of the perceived need to counter encroachment by members of the North Atlantic Treaty Organization (NATO), and is pushing ahead with further reinforcement of its naval defense readiness in the Sea of Okhotsk and surrounding areas, including the deployment of new-model submarines. To beef up the competitiveness of Russia's defense industry, the government is considering drawing up the next multi-year *State Armament Program* on the basis of a policy of maintaining the defense budget at the same level as hitherto. In conjunction with this, it is also promoting arms exports.

## **1. Putin Administration Searches for Ways to Maintain Government Stability Ahead of the Next Presidential Election**

### **(1) Legislative Election Held amid Severe Fiscal Conditions**

The Russian legislative election—held on September 18, 2016—in which 450 seats in the State Duma (the lower house of the Federal Assembly of Russia) were at stake, was closely watched, as the result was expected to indicate whether or not the ruling United Russia party could maintain a stable hold over the government of the country. In the event, United Russia won 343 seats, up strongly from 238 in the previous election in 2011, and accounting for 76 percent of the seats at stake. By contrast, other parties that had gained seats in the previous election—the Communist Party, Liberal Democratic Party of Russia (LDPR), and A Just Russia—all lost a drastic number of seats, while liberal parties highly critical of

the Putin administration secured only three seats.

While some observers see this result as ensuring that the administration has a stable government base in the run-up to the 2018 presidential election, there are a number of factors that mandate caution. Firstly, the voter turnout was only 46.9 percent, compared with 59.2 percent for the previous election, and while the ruling party's share of the vote rose from 49.3 percent to 54.2 percent, this margin of increase cannot really be described as large. This can be attributed to a decline in interest on the part of the electorate, who have determined that there is no effective alternative to the ruling party.

Secondly, the election was held under a mixed electoral system that combines single-seat constituencies with proportional representation. Half the total number of deputies (225) were elected proportionate to the number of votes cast in the federal electoral district (covering the entire country) and half were elected in single-seat constituencies. United Russia won 140 seats through the proportional representation system and 203 through voting in single-seat constituencies. In other words, it was the votes cast in the single-seat constituencies that contributed to the ruling party's electoral success, whereas their result in the proportional representation voting does not constitute a big increase from the previous election—in which all the seats were assigned through proportional representation—when the party won 238 seats, or 53 percent of the total. Amid a low approval rating of 40 percent for United Russia subsequent to the previous election, the government reformed the electoral system in February 2014 by introducing the mixed system of single-seat constituencies and proportional representation used in the September 2016 election. At the same time, other reforms of the system were implemented, such as tightening the conditions for qualification as a candidate.

In addition, in July 2015, the scope of the Russian undesirable organizations law (passed in November 2012), which originally placed restrictions on the activities of NPOs determined to be funded with capital originating overseas, was actually applied to some organizations in July 2015. Then, on September 5, 2016, just before the State Duma election, the Levada Center, a non-governmental research organization, was deemed to be an NPO funded by foreign capital, and its activities were kept in check. This move by the Putin administration suggests that they were apprehensive about the results of the upcoming State Duma election. The Organization for Security and Co-operation in Europe (OSCE), which was responsible for overseeing the fair conduct of the election, stated that

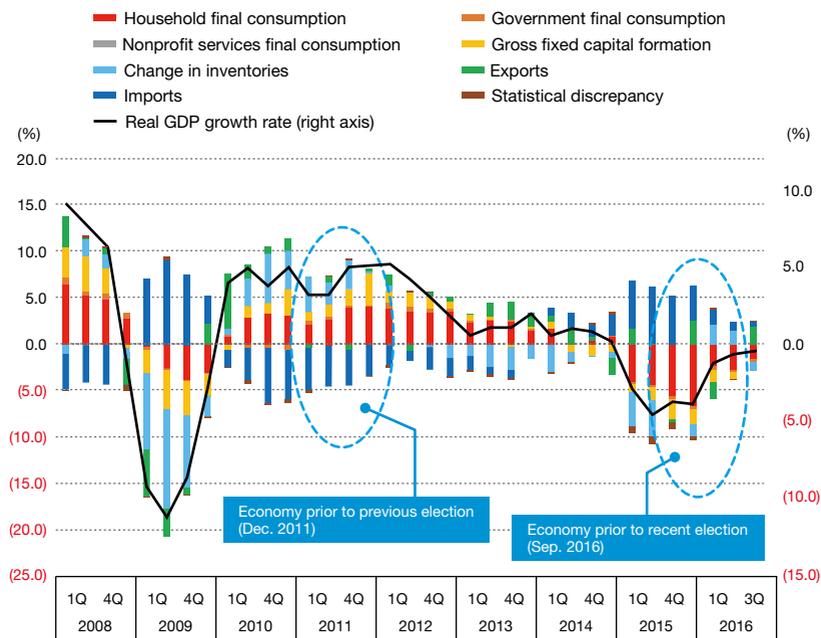
no large-scale irregularities had been observed, but criticized the unnecessary restrictions on candidate registration, and it is undeniable that the administration had taken a heavy-handed approach to the election campaign.

Moreover, amid a severe economic situation, the Putin administration is believed to have feared a worsening of public distrust, and for this reason took the risky decision to explain to the public the country's economic difficulties and the administration's response. This was particularly evident in the administration's approach to official economic forecasts. In contrast to 2015, when they repeatedly published optimistic forecasts, only to be forced subsequently to revise them downward, in 2016 the administration consistently published forecasts that offered a grim outlook on the economy.<sup>1)</sup> At the same time, they emphasized the major role of economic sanctions imposed mainly by the United States and the EU in depressing the Russian economy. It is true that the sanctions impacted the Russian economy by making it more difficult to raise funds, but the main factors behind the economy's prolonged stagnation were the global economic downturn and the consequent low level of international energy prices.

The Russian economy is heavily dependent on energy exports, and thus the government budget deficit is expanding as a result of decreasing federal government revenue, which consists principally of revenue from energy exports. Meanwhile, consumption expenditure—centered on imported goods—has been stagnating due to the ruble's weakness. The uncertainty regarding the future of the Russian and other economies resulting from these factors has also led to a structural problem in the form of declining investment (see Fig. 6.1.). On the one hand, the Putin administration is unable to embark on large-scale economic stimulation programs owing to the fiscal constraints under which it is laboring, and on the other hand, attempts to address the economy's structural problems are unlikely to produce an immediate positive turnaround. In addition, there is little hope of energy prices recovering in the near future.

Thus, the Putin administration adopted short-term measures including steps to curb national economic expenditure and cope with the effects of the economic sanctions imposed by Western nations. These included focusing on economic policies involving import substitution industrialization in a number of fields, such as foodstuffs and machine tools, while at the same time attempting to prevent the growth of social instability by ensuring a stable level of outlay in the social policy field, notably pensions (see Fig 6.2.). However, as wage growth rates in both the

**Figure 6.1. Russian quarterly GDP growth rates yr-on-yr (breakdown by contribution ratios of principal factors)**

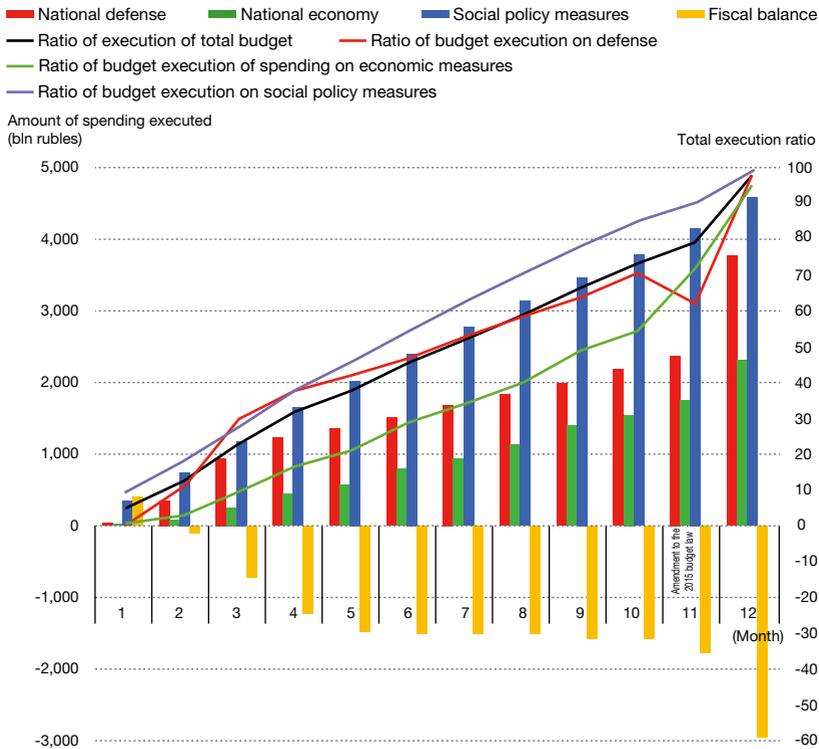


Sources: Compiled from material obtained from the Russian Federal State Statistics Service.

public and private sectors were held down, and as pension payments were pegged at four percent—below the inflation rate—the administration was unable to prevent a decline in household real disposable income. For this reason, the Central Bank of Russia adopted a policy of cautiously lowering interest rates while assessing inflationary risk, with the aim of simultaneously sparking a recovery in economic activity and stabilizing prices. The close collaboration of the government and the central bank in deploying such policy measures was one of the main contributory factors behind the ruling party’s landslide election victory.

From the foregoing, it can be seen that United Russia’s landslide victory in the September 2016 State Duma election does not necessarily guarantee the Putin administration a period of long-term stability in which to govern the country, and it seems possible that the administration was impelled by fears that its political base was weakening to take the risky decision to kindle a sense of crisis among the Russian people by stressing the problems faced by the country, so as to secure

**Figure 6.2. Execution of federal budget, and fiscal balance in 2016**



Source: Compiled from material obtained from the Russian Ministry of Finance.

public approval. In fact, on September 19, just after the final election victory figures had come in, at a meeting of top government officials President Putin stated that, in his view, the resounding victory achieved by United Russia could be attributed to the following factors: (1) the public’s desire for stability in the face of a difficult social and economic situation led them to put their confidence in the ruling party and the current administration; and (2) public support leaned toward the current administration because of the administration’s stated policy of putting the interests of the Russian public first and foremost, and that this was a crucial factor in view of threats to Russian internal stability posed by foreign forces seeking to promote instability, and that it also constituted a means of fighting against the economic sanctions being imposed on Russia. On the basis of this assessment, Putin stated that his policy regarding the future conduct of

government would be threefold: (1) he would place importance on dialogue with the other political parties; (2) he would by all means exercise caution in implementing measures such as economic structural reforms that would likely have a negative impact on the people's livelihood; and (3) in the foreign relations field he would place a high priority on the nation's interests and would push through programs to gradually strengthen the country's military power, while at the same time he would seek a balanced cooperative relationship with other countries and would not seek to drag out adversarial relationships.

These future policy positions in the domestic sphere appear to be based on a recognition of the mistakes made following the previous election, when antigovernment movements gained momentum, and it is for this reason that Putin wishes to proceed cautiously on the path of reforming the country's economic structure to realize sustainable socioeconomic development while simultaneously placing importance on dialogue with the other political parties. In the foreign policy sphere, Putin has indicated that he intends to seek improved relations with other countries based on the National Security Strategy of the Russian Federation, which stresses the vital role of international cooperation in order to achieve sustained development. Consequently, despite United Russia's landslide victory in the State Duma election, Putin recognizes that his party's political base is not absolutely rock-solid. He therefore plans first of all to secure greater public support by presenting to the people his concept of the path that Russia must follow toward sustained growth and development, along with specific measures to realize that goal. Subsequently, he trusts that the ruling party's political base will be reinforced through the demonstration of incremental progress thanks to his policy.

## **(2) Developments in the Run-up to the Next Presidential Election**

Despite Putin's reservations, it is undeniable that United Russia possesses a clear majority of seats—more than two-thirds—in the State Duma, and is thus capable of passing legislation to revise the constitution without need for the cooperation of any other political party. Separately from this, to enable them to realize a stable administration over the long term, United Russia needs to ensure a clear majority of seats in the Federal Assembly in order to push through their legislative proposals, and for this reason the party set itself the target of attaining such a clear majority in the recent election. They worked to achieve this result through a combination of persuasive rhetoric (in particular, stressing the role of economic

sanctions imposed by the West in depressing the Russian economy) and the crafting of a variety of measures. Having achieved this objective, Putin and the official in his administration undoubtedly feel that while basing their style of governance on the principle of cooperation from a medium- to long-term perspective both at home and abroad, their clear majority in the State Duma will give them the elbow room to act decisively if required. The administration is thus likely to prepare for the upcoming presidential election in March 2018 by similarly utilizing this two-pronged strategy.

Both before the holding of the State Duma election and subsequently, there have been certain developments in the areas of structural reform and governmental personnel shuffles that merit attention if we wish to gain some sort of insight into both the ways in which the administration is likely to prepare for the next presidential election and the likely direction of the government of the country after the election.<sup>2)</sup> Firstly, in April 2016 a new paramilitary unit—the National Guard—was established. Members of this new unit will be drawn mainly from the Interior Ministry Troops. Its principal purpose will be to fight terrorism and organized crime, and it will take over functions previously performed by special purpose police units, rapid response units, and so forth (which were also under the control of the Interior Ministry, officially known as the Ministry of Internal Affairs). This move is part of a series of policy measures aimed at strengthening collaboration between the Interior Ministry and law-enforcement agencies such as the Federal Migration Service. At the same time, it is thought to have been aimed at improving operational efficiency by concentrating military and law enforcement units in the newly established National Guard, and observers of the Russian political scene will be watching to see what significance this move has for the future direction of government by the current administration.

In August 2016, the 63-year-old Sergei Ivanov, a close confidant of President Putin who had served as Chief of Staff of the Presidential Executive Office since 2011, was replaced by Deputy Chief of Staff Anton Vaino. The 46-year-old Vaino worked in the Russian Embassy in Tokyo in the late 1990s, followed by the Asian Department of the Foreign Ministry. He then worked at the Presidential Executive Office from 2002 during Putin's first presidential term, followed by a stint in the government during the period when Putin assumed the premiership in 2008. In 2012 he became Deputy Chief of Staff of the Presidential Executive Office at the start of Putin's third presidential term. Considering the fact that Vaino is much younger than

the man he replaces in the post of chief of staff of the Presidential Executive Office, and taking into account his career history—particularly the fact that he is said to be well versed in Japanese affairs—and his consistent history of working closely with Vladimir Putin, his future career will undoubtedly be a focus of attention.

Putin has staffed his executive office largely with bureaucrats with practical working experience. For example, Vaino's successor in the post of deputy chief of staff is Sergei Kiriyenko, a 53-year-old whose career includes a stint at the Ministry of Energy and Prime Minister, and who was the head of the state nuclear energy corporation Rosatom from 2005 to 2016. Similarly, when in November 2010, Minister of Economic Development Alexey Ulyukaev was arrested on suspicion of bribe-taking and immediately dismissed from his post by President Putin, he was replaced by 34-year-old Maxim Oreshkin. Oreshkin worked at several banks prior to entering the Finance Ministry in 2013, and had been appointed deputy to the Minister of Finance in 2015.

While all this was going on, structural reforms were underway in the executive branch of government. On October 19, 2016, two of the nine vice prime ministers were appointed to serve concurrently as members of the Presidential Executive Office staff. Vladimir Bulavin, head of the Federal Customs Service, announced plans to merge the Service with the Taxation Bureau as a way of improving tax collection efficiency. This is a sign of the administration's intention to strengthen the functions of the Presidential Executive Office, and the future trend of structural reform in the executive branch of the Russian government will also bear close watching.

President Putin enjoys an approval rating of over 80 percent, but with respect to whether he will run for president in the next election, he stated at the regular year-end press conference that he would make the decision later, after further assessment of the situation.<sup>3)</sup> However, in view of the fact that in 2018 Putin will be sixty-six years old—which is equivalent to the average healthy lifespan for Russian men—and taking into account the recent changes to the political system and the appointment of some young staff members, it is thought probable that Putin is planning to construct a system that will allow the country to be stably governed by a group of politicians even if no single leader emerges with the sort of charisma for which Putin himself is known. This concept is rendered feasible by the clear majority in the State Duma possessed by the ruling party. Putin is therefore expected for the time being to directly supervise and manage a new cadre of leaders, centered on the staff of the Presidential Executive Office. He is

expected to aim to build on his existing track record of achievements in both foreign and domestic policy, in the hope that the cadre of successors that he puts in place will be able to gain the trust of the voting public. However, in preparation for a scenario in which this plan does not succeed, or in which Russia's external environment fails to improve, Putin is thought likely to reserve the possibility of running once again for the post of president as a measure of last resort.

### **(3) Confrontation with the Western Nations, and the Aims of the Putin Administration**

The confrontation in the spheres of diplomacy and national security between Russia and the West, which was aggravated by the eruption of the Ukraine crisis in 2014, persists to this day. Europe is at the same time faced with a mass of other problems, including the sudden influx of large numbers of refugees and a steep rise in the number of terrorist attacks, deteriorating relations with Turkey, and the United Kingdom's withdrawal from the European Union. The Russian government is thought to be attempting to foster a climate that will ease the way toward the removal of EU sanctions against Russia, by working to strengthen relations with certain EU countries such as Italy, Greece, Slovenia, and Hungary. However, in July and December 2016, the EU extended its sanctions against Russia. The reason given was that Russia had not adequately fulfilled its commitments under the Minsk Agreements, which were aimed at bringing peace to the eastern regions of Ukraine.

Victoria Nuland, then assistant secretary of state for European and Eurasian affairs, visited Russia a few times and held talks with important government officials such as Presidential Aide Vladislav Surkov in an attempt to reach a settlement of the Ukrainian problem, but these efforts ended in failure. From September 2015, relatively low-level conflicts continued in Eastern Ukraine with sporadic acceleration of violence.

Then, in August the Russian Federal Security Service (FSB) accused the Ukrainian authorities of conducting subversive activities in the Crimean Peninsula, raising the level of tension between the two countries. The Russian side claimed that the administration of Ukrainian President Petro Poroshenko was dragging its feet on the issue of expanding autonomy for the two Ukrainian regions stipulated in the Minsk Agreements—Donetsk and Luhansk—and that this constituted an obstacle to the achievement of real peace. Meanwhile, although the United States and the EU were providing support to Ukraine in efforts to reform its internal government,

this was going slowly. While all this was going on, the Kremlin claimed a number of times that the Poroshenko administration was deliberately attempting to provoke Russia, and it has become unclear whether or not the terms of the Minsk Agreements can be fulfilled.

In direct response to the Ukraine issue, the member-nations of NATO are pushing ahead with collective defense measures, and to counter this development Russia has been stepping up its deployment of antiship missiles and increasing the frequency of patrols by warships and aircraft, among other measures. As a result, an atmosphere of military tension has spread across an area well beyond Ukraine—from the Black Sea to the Baltic—including the territories of both NATO members and of non-members such as Finland and Sweden. At sea, there have been some potentially dangerous near-approach incidents, to the point where Western security experts have debated possible scenarios involving the use of tactical nuclear weapons.

Despite the severity of the situation, however, it has not yet reached the stage of all-out confrontation. In the revised National Security Strategy of the Russian Federation, which was released on December 31, 2015, the Russian side strongly criticized the West for their involvement in precipitating the Ukraine crisis and thereby posing a national security danger to Russia. At the same time, the document maintained Russia's existing assessment that the likelihood of a large-scale military conflict was low. Up to now, it seems probable that the Russians have intentionally taken steps to ramp up tension on the basis of their own projections of the most likely response from the West. The Kremlin's aim seems to be to force the Western nations to recognize the risks involved in intensifying the confrontation with Russia and thereby to sow the seeds of discord among them, estimating that this will allow Russia to improve relations with the Western nations on terms more advantageous to itself. There is no guarantee, however, that everything will go according to plan, and there is no denying that the tense military situation could escalate out of control.

Another important issue involving Russia's relations with the West concerns



**A Russian Su-24 fighter makes a close approach to the US destroyer the *Donald Cook* in the Baltic Sea (April 12, 2016) (US Navy photo)**

the situation in the Middle East, particularly Syria. In September 2015 Russia commenced aerial attacks within Syrian territory—ostensibly against terrorist targets—on the stated grounds that this was a necessary means to facilitate peace talks to end the Syrian civil war. In February 2016 the United States and Russia reached an agreement to enforce a ceasefire in Syria, and in March Russia announced that it would complete the main mission of stationing military forces in Syria. In this way, Russia was sending the West the message that, in the context of terrorism, it was playing an important role in working toward the achievement of peace through consultation and cooperation with the United States and other actors. Nonetheless, fighting between the various forces involved continues in Syria. Meanwhile, although the areas under the control of the Islamic State of Iraq and the Levant (ISIL, also known as ISIS [Islamic State of Iraq and Syria] or simply IS) have shrunk, terrorist acts in the name of this organization have continued to be carried out in Turkey and European countries.

Following the downing by Turkish forces of a Russian bomber in November 2015, relations between the two countries deteriorated. In June 2016, however, the Turkish government expressed regret over the incident to the Russian side, and in August, Turkish President Recep Tayyip Erdogan visited Saint Petersburg and held talks with President Putin, laying the groundwork for fence-mending between the two nations. Since the abortive coup d'état in July 2016, the Erdogan administration has been adopting hard-line policies, including the strengthening of presidential powers and cross-border attacks on Kurdish forces, for which reason it has come under severe criticism by the West. The Turkish government is believed to be attempting to use closer relations with Russia as a foreign-policy tool to sow disunity among these nations. Meanwhile, in August, Russian planes made use of a base in Iran to bomb targets in Syria, indicating that Russia and Iran had raised the level of their cooperation. By simultaneously restoring better relations with Turkey while strengthening cooperation with Iran, Russia is thought to be aiming to strengthen its overall diplomatic hand in the Middle East.

Russia's relationship with the United States shows signs of increasing complexity. Secretary of State John Kerry and Russian Foreign Minister Sergei Lavrov held repeated talks on achieving peace in Syria, and on September 12 the two reached an agreement on a ceasefire in the region around Aleppo to enable humanitarian relief efforts. This ceasefire was short-lived, however, and both the Syrian government and the rebel forces quickly resumed full-scale fighting. By

December the Syrian government forces, thanks partly to Russian support, had managed to take Aleppo. Whereas the United States strongly criticized Russia and the regime of Bashar al-Assad for breaking the ceasefire and causing the death and injury of many civilians, among other humanitarian issues, Russia responded with the charge that the United States had provided insufficient cooperation, and that this had led to the proliferation of terrorism and caused the refugee crisis. Moscow maintained that the root of the problem was to be found in self-righteous American exceptionalism and the US activities that stemmed from this attitude.<sup>4)</sup>

Against this background of US-Russia tension, which is said to be the most intense since the ending of the Cold War, Donald Trump was elected as US president in November. Putin immediately expressed his hopes with regard to the new US administration—since Trump had during his election campaign called for improving ties with Russia—and repeatedly insisted on the importance of efforts by both Russia and the United States to improve bilateral relations.<sup>5)</sup> However, President Putin remains extremely careful with regard to the possibilities of actual realization of the campaign promises made by Trump, as well as regarding Trump's, specific policies,<sup>6)</sup> and most observers see little likelihood that he will give up the advantages he has already gained simply in exchange for improved relations with the United States.<sup>7)</sup>

The Putin administration appears to have accurately assessed the massive economic power and military strength of the United States, and also to have concluded that the country is deeply divided over the result of the presidential election.<sup>8)</sup> The administration has worked out an ingenious strategy to turn the future negotiations regarding improved relations between Russia and the United States to its advantage, and they are expected to be very cautious in rolling out any new policies. It will be particularly important for the Putin administration to wait and see what foreign policy measures the new Washington administration takes with regard to China and energy matters—areas that will have a major impact on Russia's foreign policy and on its own energy policy, respectively. The Putin administration has recently been reinforcing its ability to collect and process information from overseas. For example, in September 2016, prior to the US presidential election, Sergei Naryshkin, chairman of the State Duma and close confidant of President Putin, was appointed director of the Foreign Intelligence Service, in which post he reports directly to President Putin. This is seen to be part of overall careful preparation for negotiations with the new US administration.

## 2. **Balanced Diplomatic Approach to Asian Nations**

### **(1) Working toward Increased Cooperation with China and Other Asian Nations, and the Limits of Such Cooperation**

In recent years Russia has been cultivating stronger diplomatic relations with various Asian nations, including China and India, to prepare for a possible future scenario in which the United States loses its current sole superpower status and global international relations enter a stage of multipolarity. Moscow has also been conducting its foreign policy in such a way as to enable the further development of the Russian Far East, whose economy is closely tied to the Asia-Pacific economic region. For Russia, therefore, China is one of the most important countries with respect to the achievement of these goals.

In June 2016 President Putin visited Beijing for a summit meeting with President Xi Jinping as part of a series of mutual visits between the leaders of the two countries. Both prior to and subsequent to this summit, officials of the two sides had held a number of talks on different topics, including a meeting between Deputy Prime Minister Dmitry Rogozin and Chinese officials regarding aerospace technology. The two presidents issued joint declarations on the strengthening of global strategic stability and on cooperation in the development of information space. These declarations appear designed to demonstrate the close collaboration between the two countries. In addition, the Russia-China agreement on the joint development of a high-speed railway connecting Moscow with Kazan (capital of Tatarstan, a federal subject of Russia), was hailed as one of the fruits of China's One Belt, One Road development framework.

The common message by China and Russia was to condemn the involvement by the United States and its allies in relation to a number of international issues in a manner incompatible with the views and interests of both states. At the present moment, however, the relationship between Russia and China is not one that binds the two parties to mutually and explicitly commit themselves to reinforcing one another's positions vis-à-vis the various subtle aspects of international issues. For example, China has not endorsed Russia's position on the issue of the Crimean Peninsula, while, equally, Russia has expressed no specific views on the maritime disputes ongoing between China and various other nations. Russia and China continue to jointly advocate certain courses of action regarding issues where their aims coincide, but refrain from making statements with respect to some difficult

problems faced by the other partner, for fear of restricting their own options.

On the night of June 8, 2016, three Russian naval vessels entered the contiguous zone surrounding the Senkaku Islands, and later in the early hours of the following day, a Chinese warship also entered the zone. In response, the Japanese government accused the Chinese government of attempting to escalate the tension surrounding the islands. While certain articles in the Chinese and Russian media speculated that this action may have been coordinated by the two navies, judging from the special nature of the relationship between Russia and China it seems unlikely that Russia would cooperate with China with respect to such a sensitive issue. This is because Russia is thought unlikely to agree to wholeheartedly support China's position on such matters due to the risk of incurring some sort of diplomatic restrictions from Japan, while equally, China is unlikely to support Russia's position on the Ukraine issue—partly because of China's strongly-held principle of non-interference in internal affairs, and partly for fear of harming its relationship with Ukraine.

Cooperation between China and Russia also comes into play with regard to issues in the field of missile defense. Russia strongly opposes US plans for the deployment of Aegis Ashore (a land-based Aegis ballistic missile defense system) in Europe, while China similarly opposes the possible US deployment of the Terminal High Altitude Area Defense (THAAD) system in South Korea. The joint declaration issued by China and Russia in June made clear the two countries' opposition to such deployments, calling them a threat to global strategic stability. In comparison, however, whereas China has directly urged South Korea—which is in a weak position economically vis-à-vis China—to withdraw from its agreement with the United States on this deployment, Russia has reserved its strongest criticism for the United States, no doubt in consideration of the investments in Russia held by South Korean companies.

On June 13, 2016, Russian Foreign Minister Sergei Lavrov held talks in Moscow with South Korean Foreign Minister Yun Byung-se. Their discussion centered on issues stemming from North Korea's development of nuclear warheads and missiles, as well as bilateral economic cooperation, and Lavrov did not react particularly negatively to Foreign Minister Yun's explanation of the ROK's position on the THAAD question.<sup>9)</sup> The missile defense issue was also not raised in talks between President Putin and President Park Geun-hye of South Korea, held at the Eastern Economic Forum on September 3, even though North Korea was discussed. Although the United States plans to deploy missile defense

systems globally is seen as a major problem in Russia, the Kremlin recognizes that while the detection capability of radar systems whose deployment is scheduled in South Korea (as part of the larger plans to deploy the THAAD system) may affect Chinese military assets, it will not affect those of Russia.

The Kremlin fears that because the Russian economy is excessively dependent on China, they may have no choice but to accede to Chinese requests for action. For this reason, Moscow is cultivating relations with many other Asian nations as a means of risk hedging. Russia maintains its traditional close ties with India, centered on the sale of military technology and the conduct of joint military exercises. On the occasion of the BRICS (Brazil, Russia, India, China, and South Africa) summit held in Goa, India on October 15, 2016, the leaders of Russia and India held talks, at which a contract was signed for the purchase by India of the S-400 surface-to-air missile system, which had been under negotiation for some time. India thus became the second country to purchase this system, after China.

In Southeast Asia, in addition to its traditional military technology ties with Vietnam and Indonesia, Russia has in recent years been working to improve and expand relations with Thailand in certain specific areas. These efforts include talks relating to cooperation in the fields of nuclear power and military technology. Putin hosted a Russia-ASEAN summit meeting at the Black Sea resort of Sochi in May 2016, indicating his desire to expand relations with such countries through diplomatic initiatives. However, at the East Asia summit held in the Laotian capital of Vientiane on September 18, Russia was represented not by President Putin—who had been expected to attend—but by Prime Minister Dmitry Medvedev. This indicates that Russia does not place the same degree of importance on relations with multinational organizations such as ASEAN as it does on relations with the major powers, and certain observers have drawn the conclusion that Moscow's commitment to collaboration with ASEAN is inadequate.<sup>10)</sup>

At the same time, during 2016 Russia took steps to maintain its presence in Central Asia. In June President Putin attended a summit meeting of the Shanghai Cooperation Organization (SCO) held in Tashkent, Uzbekistan, and on September 6 Putin visited Samarkand to pay tribute at the grave of the president of Uzbekistan, Islam Karimov, who had died on September 2 after a sudden illness. Russia is trying to raise its presence in Central Asia through such traditional means as participating in joint military exercises, but China's economic influence in this region is on the increase, particularly as part of its One Belt, One Road development strategy.

## **(2) Putin's Visit to Japan, and Moves toward Normalization of Bilateral Relations**

Moscow had previously adopted a hard-line stance vis-à-vis Japan, in hopes of encouraging the Japanese government to distance itself from the policy being followed by the United States and the EU of maintaining sanctions against Russia, but from early 2016 a more flexible stance has been seen. The main new subject for discussion put forward by Russia has been economic cooperation, but the Russians have also been seeking cooperation with Japan in the national security sphere: this includes statements by Foreign Minister Sergei Lavrov regarding resumption of the Two-Plus-Two meeting of foreign and defense ministers, previously held in Tokyo in 2013, and cooperation between Russia's Border Service and the Japan Coast Guard. This development comes against the background of reports in the media pointing out that there was limited room for further progress in Russia-Chinese relations in the economic and national security fields. It appears to indicate that the Russians are aiming to strengthen their relationship with the administration of Prime Minister Shinzo Abe, whose presence in the international relations field has been on the rise. The Putin administration is thought to put a particularly high priority on improving relations with Prime Minister Abe—compared with the leaders of the major advanced industrialized nations of the West—as he is seen as having an especially strong influence on international relations in view of the stability of his political base.

Talks between high-level officials of Japan and Russia have been held with considerable frequency in the last year or so. Prime Minister Abe—who was paying an unofficial visit to Russia—met with President Putin at the Black Sea coast resort of Sochi on May 6, 2016. The two leaders talked for three hours and ten minutes, out of which only the interpreters were present for a period of about thirty-five minutes. During this meeting, Abe presented an eight-point plan for Japan-Russia economic cooperation, and proposed a “new approach” to achieving a peace treaty between the two nations that went beyond the boundaries of the debate hitherto. Following this, on September 2, at the Eastern Economic Forum in Vladivostok, the two leaders held talks lasting about three hours, including once again a period of talks in private.

Subsequently, on November 2 – 6, Hiroshige Seko—who simultaneously held the posts of minister of economy, trade and industry and minister for economic cooperation with Russia—visited Russia and held discussions with officials

regarding various economic cooperation issues. Then, on November 9, National Security Adviser Shotaro Yachi and Secretary of the Russian Security Council Nikolai Patrushev held discussions on security issues in the Asia-Pacific region and cooperation between Japan and Russia on national security matters.<sup>11)</sup> At a summit meeting of the members of APEC (Asia-Pacific Economic Cooperation), held in Lima, Peru on November 19, Abe and Putin once more held talks lasting about seventy minutes, including a period of around thirty-five minutes when only the interpreters were present.

On December 15 and 16, 2016, President Putin paid his first visit to Japan in eleven years as president of Russia, holding talks with Prime Minister Abe for two days—both at a hotel located at a hot spring in the city of Nagato (Abe’s hometown) in Yamaguchi Prefecture—and at the Prime Minister’s office in Tokyo. Putin’s visit had originally been scheduled in 2014, but was postponed due to the aftereffects of the Ukraine crisis. Including Abe’s first term as prime minister (2006–2007), the two leaders have now held summit meetings sixteen times, of which fully four were in 2016. Private talks between the two, at which the only other persons present are the regular interpreters, now total roughly ninety-five minutes, and it can be surmised that they have established a firm personal relationship based on trust.

At the most recent summit, the two sides reached an agreement that the start of discussions on the establishment of joint economic activities in the disputed Northern Territories under a “special arrangement” would constitute an important first step toward the conclusion of a peace treaty. They also reached agreement for the first time on allowing Japanese citizens who were formerly residents of the islands to come and go freely. In addition, details were hammered out on the Japan-

Russia eight-point cooperation plan already proposed by the Japanese side, and an agreement was signed regarding a total of sixty-eight business projects to be conducted by private-sector companies and other organizations. An additional twelve memoranda and other agreements were signed between the two governments,

including a memorandum regarding the establishment of a special Japan Year in Russia and a corresponding Russia Year in Japan.

Although Putin's recent visit to Japan has given rise to increased hopes within Japan for a resolution to the issue of the sovereignty of the Northern Territories (referred to in Russia and internationally in English as the South Kuril Islands), most observers point to a lack of any visible signs of progress on this question. This is because the two leaders have shifted the focus of their discussions from the traditional framework of historical background and judicial interpretations with respect to the sovereignty or jurisdiction of the islands, to more "future-oriented" or practical negotiations over the future development of the four disputed islands, in an attempt to indirectly find a solution to the sovereignty issue. This is the end result of more than seventy years of fruitless talks on this territorial issue, during which the two sides' positions and assertions have remained as far apart as ever. It is the recognition that no progress whatsoever has been made thus far that has impelled the parties to adopt a so-called "new approach." According to the picture clarified by Abe after the summit, while the details of the discussion have not been made public, during the section of their talks at which the two were alone together except for their interpreters, the two men held intensive discussions on the two related issues—the sovereignty of the disputed territories and the signing of a peace treaty.

According to a post-summit press release, the two leaders expressed their firm personal resolve to work toward a solution to the peace treaty issue. This represents a repetition of previous statements recognizing that the failure of Japan and Russia to sign a peace treaty is an anomaly. At the joint press conference following the summit, President Putin clearly stated that the most important issue on the agenda was the signing of a peace treaty, and that this would not be postponed. He not only assuaged Japanese fears that economic cooperation might go forward while the peace treaty question was quietly forgotten, but also asserted his intention to conduct further negotiations on the basis of the Soviet-Japanese Joint Declaration of 1956, in which the Soviet Union agreed to hand over Shikotan Island and the Habomai Islands following the conclusion of a peace treaty. It will not necessarily be easy for Japan and Russia to proceed with economic cooperation activities that do not conflict with the two countries' stances on the peace treaty issue, but at the very least, the recent agreement seems likely to serve as an important first step in the "new approach" to this issue.

At the recent summit, the Russians also proposed measures to strengthen

bilateral dialogue in the national security field, including the holding of more Two-Plus-Two meetings. A document entitled *The Foreign Policy Concept of the Russian Federation* (adopted by President Putin on November 30, 2016) outlines Russia's diplomatic strategy and indicates the greater importance now placed by Russia on Japan, not only in the economic sphere but also with respect to national security. For example, this document contains the statement: "The Russian Federation will continue to build good-neighbourly relations and promote mutually beneficial cooperation with Japan, including for ensuring stability and security in Asia-Pacific." In addition, Putin mentioned Japan—along with China and India—in his annual State of the Nation Address delivered on December 1.

At the recent summit, Prime Minister Abe asserted that, against the backdrop of growing threats to national security in the Asia-Pacific region, dialogue between Japan and Russia on security issues was of great significance, and the two leaders agreed to promote continued dialogue between their respective national security councils, as well as exchanges in the defense field. The two national leaders agree on the importance of bilateral collaboration to stabilize the security environment in East Asia, and for this reason, too, the normalization of relations via the signing of a peace treaty is thought to be essential.

### **(3) Economic Development Issues and Japan-Russia Cooperation**

At the Japan-Russia summit meeting in December 2016, details of the eight-point plan for Japan-Russia economic cooperation that had been proposed by Japan in May of the same year were discussed and clarified, and agreement was also reached to take preparations for this plan to the next level. Based on this agreement, twelve documents were signed, including memoranda of understanding on cooperation between the governments and other public authorities of the two countries. In addition, sixty-eight documents were signed relating to projects to be undertaken jointly by Japanese and Russian private-sector companies and other bodies under the respective points of the eight-point cooperation plan. It is believed that the implementation of this plan will be an effective means of addressing the issues facing the Russian economy. The Russian government hopes to build an economy capable of sustainable development by transforming the core nature of the economy from dependency on the export of natural resources to a format in which innovation-driven investment plays the leading role. At the same time, the Kremlin is also aiming to improve public welfare. Thus far, however,

neither of these efforts has met with the kind of success that the government had hoped for, and the prime cause of this failure is thought to lie in structural problems affecting the domestic economy that have been inherited from the end of the Soviet era.

Specifically, the investment needed to improve the quality of domestically produced goods and of services in the domestic market has stagnated since the 1990s. The Russian public, whose standard of living improved dramatically during the first decade of this century as a result of the rise in international oil prices, have failed to invest in such goods and services of inferior quality, and consequently investment has stagnated still further, in a negative spiral. At the same time, the authorities have had no choice but to artificially keep afloat the state-owned companies that had been dispersed across various regional cities to maintain social stability, as well as local companies, even though these companies are inefficient. In addition, a further vicious cycle is operating. That is, the comparatively short healthy life expectancy of the average Russian citizen (largely caused by an unhealthy lifestyle), as well as the rapid shrinkage of the working population (caused by a sharp decline in the birthrate in the 1990s) has produced a distorted economic structure. One consequence of this is that government expenditure on social security, including pensions, has grown sharply, and this restricts the government's ability to implement bold economic measures.

Moreover, the bureaucratic governing structure that has continued to dominate Russia since the Soviet era is unable to respond flexibly to changes in the market environment, as a result of which it is difficult to put cutting-edge scientific discoveries and advanced technologies to practical use, as they tend to be dispersed and hoarded away in state-managed research centers. Finally, the most talented Russians continue to seek more rewarding careers outside the country. The Russian government takes this issue very seriously, and in the 2000s it began to vigorously implement various countermeasures. It opened up the domestic market to foreign capital in a step-by-step manner while seeking cooperation in the areas of funding and technology from those European countries with which Russia had strong historical ties. It also sought to reform its system of governance with the collaboration of the EU. However, Russia's economic reform process has stagnated. This was the result of the European debt crisis that emerged from the global economic and financial crisis in the latter half of the decade—coming at almost the same time as the Russo-Georgian War and the subsequent deterioration

in political relations with European countries after the eruption of the Ukraine crisis at the end of 2013 and the parallel worsening of the economy.

Meanwhile, to successfully reform the Russian economy, it is vital that the measures taken be mutually complementary, in view of the fact that the problems the economy faces are structural. From this standpoint, we will now examine the eight-point cooperation plan proposed by Japan.

1. To lengthen the healthy life expectancy of the Russian population, it will be necessary both to secure an adequate work force and to realize cost savings in social security expenditure.
2. With regard to the development of more fully functioning cities, hopes are being pinned particularly on steps to stimulate economic activities in regional cities, and to prevent the outflow of the populations of such cities.
3. In regard to “exchanges between small and medium-sized companies,” hopes are being pinned on the effectiveness in stimulating the economy of companies of this scale, which are currently playing the leading role in technological innovation.
4. With regard to “cooperation in energy development,” hopes are being pinned on the effectiveness of maintaining and further developing the role of this industrial field as a major economy driver in the future.
5. Hopes are being pinned on diversification and improved productivity in industry as a means of raising market competitiveness. Similarly, hopes are being pinned on the effectiveness of –
6. Cooperation in cutting-edge technology, and
7. Personnel exchanges, as both these two are expected to act as a common base in promoting the overall development of Russia’s society and economy. And, finally –
8. Particularly noteworthy is point No. 8—“Cooperation in developing industrial activity in the Russian Far East and transforming the region into an export base.”

Putin has consistently placed top priority on the development of the Far East ever since first assuming the presidency in the year 2000. He has promoted various projects in that region, including improving the transportation infrastructure in inland areas, conversion of fossil fuels into gas as well as their use to generate

electric power, and the creation of “innovation centers.” These policies have three ambitious, long-term purposes: (1) to build an industrial base in the Russian Far East that can competitively break into the Asia-Pacific market, which is currently the world’s biggest growth engine; (2) to simultaneously develop East Siberia as a source of components as well as raw materials; and (3) create a “Eurasian economic sphere” centered on the countries of the Eurasian Economic Union by linking the Russian Far East more closely with the European part of Russia and the countries of Central Asia.

Thus far, however, Moscow has been unable to ensure that these various policies sufficiently complement each other, and investment has failed to expand, owing to the fact that adequate reform of restrictive frameworks such as the registration system and the taxation system has yet to be implemented. The administration itself admits that the majority of development efforts to the present have done nothing more than invest vast amounts of funds to no avail. On top of this, the administration has come in for public criticism owing to the disparities in capital investment between different regions of the country. A particular problem in this respect has been the absence of sufficient competitiveness to enable Russian enterprises to enter the severely competitive Asia-Pacific market, as well as the inability to adequately exploit natural resources such as coal—which are potentially competitive—owing to the lack of sufficient export infrastructure. In contrast, the recently agreed cooperation in the Russian Far East is focused on creating an export base (point No. 8) on the understanding that the other seven points would also be implemented in an integrated manner. Additionally, as these measures would also be accompanied by improvements in the overall system—coordinated between the governments and other authorities of the two countries—we can reasonably look forward to the achievement of maximum effectiveness.

Against this background, to what extent can we look forward to cooperation with Japan from the Putin administration? Putin’s main motive in wishing to promote the development of Russia’s Far East stems from a recognition of the need to stem the outflow of population from both the Far East region itself and from the East Siberian region immediately adjacent, as well as the shrinking of the industrial sector in these regions, as both these phenomena are indirect threats to Russia’s national security.<sup>12)</sup> To be precise, Moscow fears that China, Japan, and South Korea may take advantage of this weakness to dominate the whole region. Looked at from this perspective, Russia can be expected to avoid relying

on any particular country, and will more likely persuade some other nations to become involved in developing the Russian Far East. By pursuing a balanced approach, Russia will aim to keep a firm hold on the initiative and maintain its sovereignty over this region.

In fact, in the energy sector, which requires the input of huge amounts of capital, the Russians have realized their error in relying too much on Chinese demand—which depends heavily on the state of the Chinese economy—in their development of gas fields and distribution networks for the markets of East Asia, as it is this overreliance that has caused the development of pipelines and gas fields to stall. They are therefore working to involve a large number of different countries—one of which is Japan—in providing capital for the development of oilfields and gas fields in East Siberia. In response to this demand, business projects involving the cooperation of Japanese companies are under rigorous evaluation and risk management (to ensure that appropriate risk management systems are in place) by international loan syndication groups with the cooperation of the Japan Bank for International Cooperation and the Russian Direct Investment Fund, as well as other state-operated public credit institutions. In this way, economic cooperation between Japan and Russia is proceeding cautiously, and while only those projects expected to be effective and of mutual benefit will be selected, it is precisely this kind of project that will become the base on which improved Japan-Russia ties will be built.

However, the Kremlin is not wagering the fate of Russia on economic cooperation with Japan or development projects in the Far East. For example, to convince Western investors of the good prospects and safety of the Russian market, the Russians point out the high level of Japanese investment interest in the market.<sup>13)</sup> Additionally, in the energy field, which is Russia's principal industrial sector, they are steadily pushing ahead with construction of the Nord Stream 2 gas pipeline, an international project that will directly connect Russia with Western Europe, and are hedging the risks involved by re-starting the Turk Stream pipeline to supply gas to Turkey as well as countries in southeastern Europe. In these ways, the Kremlin is promoting economic cooperation with Japan and industrial development in the Russian Far East as part of its long-term strategy.

### 3. Russia Increases Its Military Presence

#### (1) Strengthening Defense Posture and Fostering Trust through Military Exercises

The Kremlin holds fast to its military reform policy, whose goal is to develop forces that are mobile and capable of rapid deployment, enabling the government to respond swiftly to small-scale conflicts. At the same time, it also appears to be preparing for a conflict closer to that experienced in the Cold War. The fronts on which tension is most directly apparent are the Baltic and the Black Sea and their surrounding areas, where dangerous incidents of close encounters with foreign forces have been reported. Meanwhile, Russia has been conducting military exercises in the Arctic Ocean and the Far East region. Now that navigation is becoming possible throughout the year on the Northern Sea Route in the Arctic Ocean, the country finds it necessary to bolster its network of defense bases in that region. In addition, the need to prepare for possible invasions by forces of the United States from all directions has become the most important motivating concept within Russian military policy.

Since 2014, Russian bombers have been conducting frequent patrols in areas close to the airspace of neighboring countries—Estonia, Finland, Sweden, Norway—and even the United Kingdom, among others. In the Baltic Sea, the forces of Russia and NATO have been observing one another's military maneuvers, and a number of dangerous close encounters have occurred. The situation has been the same in the Black Sea. In August 2016 the Russians deployed an S-400 surface-to-air missile system on the Crimean Peninsula. Snap inspections of military forces were conducted from August 25, mainly in Russia's Southern Military District, and on September 5 the Kavkaz-2016 military exercises commenced.

These exercises were intended to provide practice in the mobility that will be needed to defend Russian territory in the event of an escalation of the confrontation with NATO, and were also intended to strengthen Anti-Access/Area Denial (A2/AD) capabilities by developing means of attacking naval vessels. In addition, the deployment of S-400 missiles at the Russian military base in Syria is believed to be for A2/AD purposes in the eastern Mediterranean, so as to be capable of interdicting ship movements in the region of the Suez Canal. On October 15, 2016, the aircraft carrier *Admiral Kuznetsov* left the port of Severomorsk on the coast of the Barents Sea and subsequently conducted flight training exercises off

the coast of Norway and then in the Mediterranean. On November 15, Russian carrier-based Su-33s bombed targets in Syria. On top of this, by giving out ambiguous signals suggesting, for instance, the possibility of the limited use of nuclear weapons or of an attack with conventional weapons on the three Baltic states (formerly part of the Soviet Union), the Russians were seen to be attempting to sow doubt in the minds of peoples of NATO member nations regarding whether or not the alliance would actually invoke its right of collective defense, as a means of undermining trust in the alliance.

For its part, NATO found it necessary to continually stress its commitment to collective defense, including at the July 2016 Warsaw Summit, among other venues. Simultaneously, in 2016, as it did in 2015, Russia once again held the Prevention of Incidents On and Over the High Seas (generally known as INCSEA) agreement annual meeting with the United States, with both sides forced to make great efforts to avoid eruption of actual hostilities or accidents. Despite this situation, Moscow continues to maintain the perception of the country's strategic environment upon which its military reform plans are based, i.e., that there is little probability of the occurrence of a large-scale military conflict. The series of actions recently taken by Russia is thus thought to be aimed at undermining NATO's unanimity insofar as this can be achieved without risking a large-scale conflict.

In East Asia, while Russia's international environment has not reached a stage describable as "military tension," in this theater, too, it is also engaged in strengthening its military capacity in a manner that can be interpreted as intended to bolster its A2/AD capabilities. At the military base located in the town of Vilyuchinsk on the Kamchatka Peninsula, the Borei-class nuclear-powered submarine *Alexander Nevsky* was deployed in September 2015, and following this, the *Vladimir Monomakh* (a submarine of the same class) arrived at the base in September 2016. Soon after this arrival, military maneuvers were held near the base involving antiship missile units and fighter planes, and maneuvers involving airborne troops and other units were held in the vicinity of the Kuril Islands.<sup>14)</sup>

On March 25, 2016, at a meeting of the top officials of the Ministry of Defense, Minister Sergei Shoigu brought up for discussion the military equipment modernization plan currently underway in the Eastern Military District. He announced the specific policy with respect to the Arctic and Far East regions of deploying the latest models of antiship missiles on the Kuril Islands as well as conducting investigations preparatory to constructing a new base of operations

for the Russian Pacific Fleet.<sup>15)</sup> In response to this announcement, from April through to June 2016, the Russian Geographical Society conducted an investigation of the island of Matua (known as Matsuwa-to in Japanese), located near the center of the Kuril Islands chain, which the Pacific Fleet had picked as a possible site for a base. While the choice of this location may simply reflect the Russian military's emphasis on the importance of way stations where airstrips can be located to be used for refueling

**Figure 6.3 The Okhotsk Sea and surrounding areas**



Source: Created by the author.

airplanes on long flights within the vast areas of the Far East region, at the very least it can be said to indicate the Kremlin's desire to demonstrate an increased military presence in this region—both to the Russian public and to the outside world. In addition, patrols by Russian military aircraft in the vicinity of Japan have been on the increase, forcing Japanese planes to scramble 180 times between April and September 2016, which exceeds the number for the same periods of 2012, 2013, and 2015.<sup>16)</sup>

In the background to this process of increasing military capabilities lie a number of considerations. Firstly, there is the perceived need—amid rising military tension with the United States—to urgently improve Russia's outer line of defenses so that the country is able to defend against US attacks coming from any direction. This has been pointed out by, among others, Russian military analyst Pavel Felgenhauer.<sup>17)</sup> Secondly, there is the need to reinforce Russia's defensive capabilities in this region so as to secure the maritime route via the Far East littoral seas, now that it appears that the Northern Sea Route through the Arctic Ocean will be passable on a regular basis.

As suggested by the passage of Chinese navy vessels through La Pérouse Strait

(also known as Soya Strait), between Hokkaido and Sakhalin in 2013, this part of the world may well see increased activity of this kind in the future, and as seen in the Vostok-2014 military maneuvers, the Kremlin is assuming the future deployment of mobile troop units on some of the Kuril Islands, on the Kamchatka Peninsula, and along the country's Arctic coast. Following the March 25 meeting mentioned above, in which Defense Minister Shoigu outlined the country's Arctic and Far East defense policy, on August 23 he announced a concept for enhancing the coastal defense system from Vladivostok to the Arctic Ocean. On this occasion, he specifically mentioned the need to secure navigation routes past and through the Kuril Islands and the Bering Strait.<sup>18)</sup>

As long as the Russian authorities adhere to concepts of this kind, the defense of their military installations on the islands of Etorofu (known as Iturup in Russia) and Kunashiri (Kunashir in Russia) as well as the various straits in the region, will remain essential. In fact, since 2015 the Russians have been investing increased money and effort in upgrading their military infrastructure in this region, and have been holding full-scale military exercises to practice the defense of remote islands, with the participation of airborne troops from the mainland. According to an announcement in the official newspaper of the Pacific Fleet on November 22, 2016, K-300P Bastion-P coastal defense surface-to-air missile systems were transported to Etorofu Island and Bal missile systems to Kunashiri Island. This is thought to be part of a larger scheme for the modernization of regional defenses that Moscow has been pursuing over the past several years.

Russia has also been engaged in various other diplomatic activities in East Asia, including participation in joint military maneuvers. In April 2016 it took part in antiterrorism exercises as part of the expanded ASEAN Defence Ministers' Meeting (ADMM-Plus), and the Pacific Fleet's hospital ship *Irtys* participated in the ADMM-Plus disaster-relief drills that were held in Thailand starting September 1, conducting search-and-rescue exercises using ship-based Ka-27 helicopters.<sup>19)</sup>

Russia also participated with China in the Maritime Cooperation 2016 joint exercises, which took place on September 12–19, commencing from the port of Zhanjiang, a city in the southwest corner of Guangdong Province, facing the island of Hainan to the south. The Russian *Udaloi*-class destroyers *Admiral Tributs* and *Admiral Vinogradov*, as well as the landing ship *Peresvet* and two other vessels took part, engaging in landing drills and rescue-at-sea exercises.<sup>20)</sup> However, there was no participation by a Russian submarine in cooperation efforts to improve

Chinese antisubmarine warfare capabilities, from which one can deduce that Russia is trying not to show its cards any more than absolutely necessary.

Turning to cooperation with India, the Indra-2016 joint antiterrorism exercise was held near Vladivostok from September 23 to October 2, and in December the Indra Navy-2016 joint naval exercise was held in Indian territorial waters. In addition to these, joint exercises were also held by the member nations of the Collective Security Treaty Organization (CSTO) plus other countries including Mongolia and Pakistan, and in January 2017 Russia and Japan conducted a joint maritime search-and-rescue exercise. Russian forces' participation in these exercises is believed to be aimed not only at nurturing bonds of trust with other countries, but also at demonstrating Russia's military presence on the global stage.

### Matua Island (Matsuwa-to)

According to the Treaty of Saint Petersburg (1875), Japan agreed on Russian ownership of Sakhalin Island, in return for Japan's acquisition from Russia all the islands in the Kuril chain from Urup to Shumshu, inclusive. During the Pacific War (1941–1945), the Japanese Army stationed a tank regiment on the island of Shumshu, which is located immediately south of the Kamchatka Peninsula, to prevent American forces from using it as a stepping stone in their advance from the Aleutian Islands. The divisional headquarters was set up on Paramushir, the next main island to the south of Shumshu.

Matua is a small (fifty-two square kilometers) island built up by a stratovolcano. There are no rivers, and it is unsuitable for habitation. The Japanese navy, assessing Matua's position as valuable for transportation, established an airfield and a port, and the island was garrisoned with an army infantry regiment (*Chishima Islands Geographic Research*, preserved at the Military Archives, the National Institute for Defense Studies). In August 1945, after the Japanese government had conveyed its willingness to surrender, instead of the American forces, the Soviet forces landed on Shumshu, leading to a fierce fight, as a result of which the garrison on Matua surrendered.

The Soviet forces not only captured the islands between Shumshu and Urup, but also went on to capture the three islands of Etorofu (Iturup), Kunashiri (Kunashir), and Shikotan, as well as the Habomai Islands, which have been under Japanese ownership since 1855 and are referred to by the Japanese as the Northern Territories. As a result, the Soviet Union came to call the entire island group—the chain from Shumshu to Urup, plus the Northern Territories—the Kuril Islands. For a number of years following the end of the war, the Soviets did not place particular importance on the Kuril Islands as part of the “front line” vis-à-vis the United States. From the 1970s, however, when the Soviet Union began deploying submarines armed with ballistic missiles in the Sea of Okhotsk, it became necessary for them to defend the entire line running down the Kamchatka

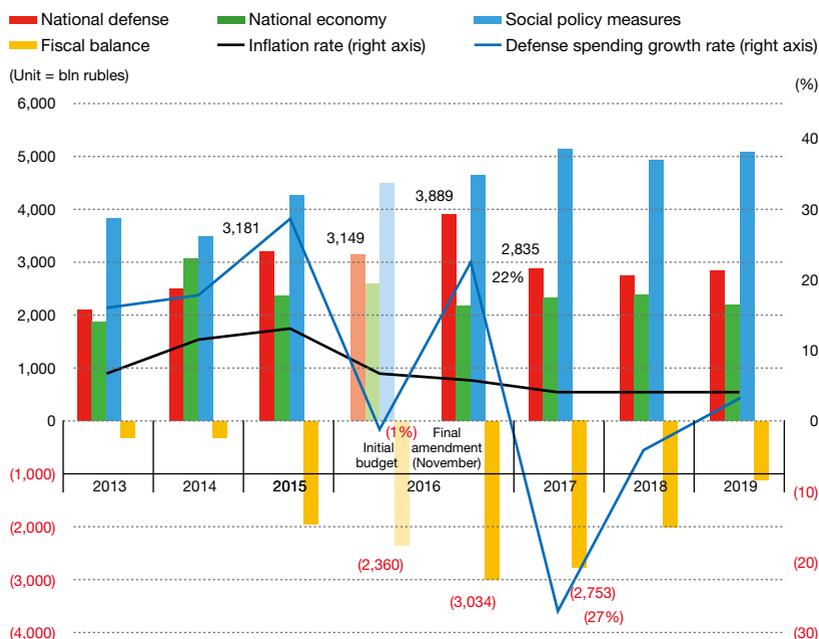
Peninsula and along the Kuril Islands chain. In addition, both the US Navy and the Japan Maritime Self-Defense Force conducted exercises based on the scenario of being forced to launch an attack on Soviet submarines in the Sea of Okhotsk from the Kuril Islands chain. In response, the Soviets stationed army forces on Kunashiri and Etorofu to prevent the American forces from seizing these islands for use as forward attack bases. The Soviet Union did not, however, put any particular military presence on the islands in the northern section of the Kuril Islands chain.

For a number of years after the Cold War, the Russian forces in the Far East did not have sufficient resources to undertake much activity, and the facilities on Etorofu and Kunashiri were not kept up to date, and were neglected. Even after the visit by President Medvedev in 2010, the process of repairing and modernizing the facilities took a long time, and work did not begin in earnest until 2015. It is believed that the potential role of Matua Island as a “relay base” in helping defend the Russian frontier with mobile units suddenly became the focus of attention after Russians developed the defense concept of the region by mobile forces shown in the Vostok-2014 naval exercises and other such recent exercises.

## **(2) Securing Defense Budget Appropriations, and Attempts to Make Defense Industry More Efficient**

The Russian government’s draft budget is normally drawn up between August and September, and is presented to parliament by October 1 at the latest. In 2016, however, because the State Duma election was brought forward and held on September 18, the deadline for presentation of the budget to parliament was put back by one month. On September 21, following the State Duma election, the government approved the economic forecast, and from October 13 intensive discussions were held on the budget proposal drawn up by the government’s Budget Committee, which was finally presented to the Federal Assembly on October 28. After about six weeks of intensive debate on the budget proposal at the Federal Assembly, it was passed on December 14, and the budget appropriations bill was signed into law by the president on December 19.

While it may appear from a glance at this schedule that preparations for the drafting of the federal budget were inadequate, this is, in fact, not so. The Kremlin had decided at the start of the year to draw up a budget for a three-year period, so as to indicate to outside observers the predictability of the government’s measures and to obtain the confidence of investors in bond markets both at home and abroad. In addition, the government took uncertainty in international energy prices as a given, and drew up a conservative scenario, assuming that the price of

**Figure 6.4. Overview of federal three-year budgets**

Sources: Compiled from material obtained from the Russian Federal Ministry of Finance, and the State Duma.

the benchmark Urals oil (which acts as an important indicator of government revenue) would remain at \$40/barrel for three years. Under this scenario, they cautiously prepared an austerity budget that would enable them to maintain fiscal discipline and avoid excessive reliance on bailouts from the Reserve Fund or the necessity to issue government bonds. To hold down the overall level of expenditure while ensuring continued economic and social development, President Putin earmarked certain items for priority in expenditure, and indicated that his policy is to efficiently apportion outlays under the budget by issuing policy measures that treat closely intertwined policies in an integrated manner.

Specifically: (1) with respect to spending on social policy, which has been accorded top priority up to now, measures in this area will henceforth be integrated with those in the fields of health, medical treatment, education, housing, public utilities and others to enhance overall spending on the fostering of a strong and vibrant society, and further deliberations will be made on how to implement measures efficiently, including the payment of pensions; (2) spending on the

national economy, which was cut in 2015 and 2016, will continue to be restrained, with priority being given to fostering small and medium-sized enterprises and improving the nation's transportation infrastructure; and (3) fiscal outlay transference to regional governments, the value of which was reduced sharply in 2015 and 2016, is to be apportioned on a priority basis to the Far East, Arctic, and North Caucasus regions as well as to Crimea and Kaliningrad, while the total value will continue to be held down. These regions are regarded as being particularly important with respect to the national interest and as playing an important role in national security,<sup>21)</sup> and on this basis, Putin requested understanding of the resulting inequality between different regions of the country in terms of federal budget outlay.

Budget expenditure for fiscal 2017 on the national development program for the Far East region was reduced sharply by 52.1 percent year on year, and it can be surmised that the Kremlin is pinning its hopes on financial assistance resulting from economic cooperation with Japan. Moreover, regarding the fiscal deficit that is expected to ensue—in view of the difficulty that the government will face in dipping into the Reserve Fund—it intends to cover the difference by selling off equity holdings in state-owned enterprises.

Total budgeted defense expenditure for fiscal 2017 has been reduced by 27.1 percent from the 2016 level, but this reflects the fact that defense expenditure in 2016 had risen sharply—by 23 percent—compared with the original budget appropriation according to a budget law amendment in November 2016. While this is thought to result from advance payments on orders placed for delivery up to 2020, this does not change the fact that this year's appropriation has been reduced, and the government is attempting to introduce greater efficiency into the provision of defense capabilities. President Putin is strongly maintaining the view that the strength of Russia lies not solely in its military capacity, but in its comprehensive potential, which comprises its traditions, culture, and economic strength, the vast amount of natural resources contained in its extensive territory, and, above all, the ability and willingness of the Russian people to unite and work together.<sup>22)</sup>

Because of this belief, Putin appears to take the view that, rather than simply increasing the monetary amount of defense spending year after year, Russia should pursue its foreign policy and economic policy in an integrated manner, thus enabling it to check the growth of defense spending while mobilizing the nation's resources efficiently. In fact, the following plans for military equipment

provision have been drastically downsized in order to make possible the step-by-step modernization of the Russian armed forces amid a very tight fiscal situation.

Russia's arms procurement policy for 2016 is being pursued on the basis of the *State Armament Program for 2011-2020*, which was drawn up in 2010. This plan aimed to raise the percentage of Russian forces with fully modern equipment—which was 30 percent or less in 2010—to 70 percent by 2020, through the investment of twenty trillion rubles over the intervening ten years. It is reported that production began in 2016 of the T-14 Armata new main battle tank, and that production and delivery of Sukhoi Su-35 fighter planes commenced. Actually, 2016 was supposed to have been the initial year of a new arms procurement plan—the *State Armament Program for 2016-2025*. In addition to achieving its numerical targets, this new plan was intended to serve as a guideline for armament plans for 2020 and beyond, and to that end, the drafting of this new program was scheduled for the end of 2015. In January 2015, however, the start of implementation of the plan was put off until 2018. This was not merely a postponement caused by the sharp economic slowdown experienced in 2014. President Putin intended to radically overhaul Russia's armaments policy to make it compliant with both the government's fiscal situation and the observable trends in military technology.

In September 2014, recognizing the urgent need for the creation of an integrated system encompassing the research and development, production, and deployment of arms and other strategically important military equipment, President Putin put forward the concept of an "institution of chief designers," which would oversee the research and development process—cutting across the jurisdictional boundaries of all the government ministries and agencies involved. In January 2015, at the meeting of the Military Industrial Commission at which the decision was taken to postpone the implementation of the new armaments plan, he ordered the commission to examine this idea. In February 2016 the Military Industrial Commission produced a report that recommended a reform of the military equipment production system, including the establishment of the Chief Designers Council—which would coordinate and supervise the work of more than 170 research institutions (operating in twenty-one crucial fields) currently under the control of a variety of government ministries and agencies, and would host meetings with the participation of representatives from industry, academia, and government.

In response to this report, in July Putin ordered the establishment of the Chief Designers Council, and the Military Industrial Commission continued to work on

the design of a system that would coordinate the activities of the government, the various ministries concerned, and private-sector corporations. Particularly important areas were selected, and this was incorporated into the new arms procurement plan. This plan is scheduled to be presented to the Military Industrial Commission on July 1, 2017.

On September 8, President Putin revealed his plan for simultaneously meeting Russia's own demand for military equipment while also selling such equipment on international markets. He ordered that once the 2020 targets of the new arms procurement plan were reached, that the government should reduce the frequency of orders placed with the Russian defense industry, while taking steps to develop and produce dual-use products. At various meetings of defense industry and economic organizations held in mid-November, Putin further confirmed that this plan would be implemented in a cross-sectoral approach covering all ministries and agencies involved. The implementation of the plan was officially ordered at the annual expanded meeting of Defence Ministry officials on December 22. In this way, the new arms procurement plan is intended to rectify the existing method of placement of defense equipment orders, which has been severely criticized for inefficiency. At the same time, it is hoped that the plan will also serve a valuable role in the government's strategy for encouraging innovation in order to strengthen the Russian economy as a whole. The future development of this plan will be closely watched, in conjunction with its coordination with the executive order on the Scientific and Technological Development Strategy, which was signed into law on December 1.

### **(3) Promotion and Diversification of Arms Exports**

The export of weapons remains an important well-spring of energy for Russia's defense industry as well as a foreign policy tool. The issue of the sale of S-300 surface-to-air missile systems to Iran is a good example of the way in which Russian foreign policy is closely intertwined with arms exports. The contract was signed in 2007, but in line with sanctions against Iran imposed by the United Nations in 2010, Russia halted fulfillment of the order. Following the international agreement signed with Iran in 2015 on the nuclear weapons development issue, Moscow once again agreed to export the S-300PMU-2 missile system to Iran. In the case of Syria, Putin had said that Russia had not agreed to sell the S-300 missile system to Syria at the request of the government of Israel, but in the case of Iran the sale went ahead in spite of Israel's objections. In April 2016 Russia

began shipments of various components of the system separately to Iran, and the launchers were displayed at a parade in Teheran in the same month. Iran announced in August that one battalion had been equipped with the missiles.

Turning to the export of arms to China, the conclusion of contracts for the sale of Su-35 fighters and S-400 surface-to-air missile systems was announced in 2015, and four of the fighters were delivered in December 2016.<sup>23)</sup> The negotiations on these contracts have taken quite a long time to conclusion, due to the differing stances of the two sides regarding both price and technological specifications. Details of the performance and capabilities of the equipment in question have not been released. In the end, it is thought that agreement was reached on the comparatively high-tech systems that China had desired, i.e. the 117S engine and the Irbis radar system, among others. Once China has acquired this technology from Russia and has the systems fully operational, it will considerably improve the operational capabilities of the Chinese Air Force. In addition, the possession of this equipment will provide a valuable launching pad for China's own technology development, and is therefore likely to raise China's capabilities over the long term. The year 2016 also saw progress toward a contract for the joint development and production of transport helicopters.

Other countries that have traditionally been eager customers for Russian armaments include India and Vietnam. The relationship between Russia and India has grown increasingly complex in recent years, partly due to India's policy of diversifying its military equipment procurement sources, and also due to Russia's direct sale of helicopters to Pakistan. Vietnam has already taken delivery of five of the six Kilo-class submarines (of the improved Kilo class, designated project 636 in Russia, which boast notably quiet operation) for which a contract was signed in 2009, and the Vietnamese Navy is receiving submarine crew training from Russia and India, as well as maintenance services. Meanwhile, Indonesia is considering the purchase of Su-35 fighters, following on their previous purchase of Su-30MK2 fighters. If it goes ahead, this will be the second export contract for these planes following that with China. Other arms export developments are shown in Table 6.1.

Apart from Vietnam, other Southeast Asian countries are also spending more on defense and showing an increasing tendency to diversify their procurement sources. Since the May 2014 coup d'état, Thailand has received no supplies of military equipment from the United States, and because of this the government is examining the feasibility of importing such equipment from China or Russia. In

**Table 6.1. Principal developments in Russian arms exports during 2016**

Importer	Transaction
China	Four Su-35 fighters delivered (contract signed in 2015 for 24 planes at estimated \$2 bln.) Contract for joint production of heavy-lift helicopters Additional contract for AL-31 engines
India	Contracts signed for S-400 surface-to-air missile systems, <i>Talwar</i> -class frigates, and Ka-226T helicopters
Vietnam	Delivery of five Kilo-class (Project 636) submarines; discussion ongoing on additional construction of Gepard-class frigates for antisubmarine warfare
Indonesia	Talks held on sale of Su-35 fighters
Thailand	Talks held on additional purchase of Mi-17V-5 transport helicopters
Algeria	Delivery of Su-30MKA fighters
Iraq	Delivery of three Su-25 attack aircraft
Iran	Delivery of S-300 surface-to-air missile systems

Sources: Compiled from various media reports.

February 2016, the Thai government dispatched Deputy Prime Minister and Defence Minister Prawit Wongsuwan on a visit to Russia and Belarus. Meanwhile, newly installed President Rodrigo Duterte of the Philippines has indicated that his country would be buying weapons from Russia and China, against the background of a deterioration in relations with the United States. In contrast, as the United States has lifted its ban on the export of arms to Vietnam, the supply of US military equipment may well increase.

As we have seen, rather than relying on one source for their procurement of military equipment, the various countries are pursuing a multiple number of diplomatic relationships and technology tie-ups. In this sense, the countries of the Middle East are also seen to be trending toward the diversification of their arms imports, instead of relying solely on the United States as hitherto, and this region is becoming increasingly promising as a new export market for Russian weapons. Sergei Chemezov, CEO of Rostec, has stated that the value of arms exports by Rostec subsidiary Rosoboronexport rose from 12.9 billion dollars in 2015 to 13.1 billion dollars in 2016. As noted above, expenditure on military procurement is rising in many countries, and Russian arms exports are expanding in parallel with the trend toward diversification of procurement sources.

**NOTES**

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- 17) Pavel Felgenhauer, “Despite Bilateral Diplomatic Contacts, Russia Hardens Its View of US as the Enemy,” *Eurasia Daily Monitor*, March 31, 2016.
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- 22) Prezident Rossii, October 5, 2016.
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