

Chapter 6

Russia: Japan and Russia Hold First-ever “Two-Plus-Two” Meeting of Foreign and Defense Ministers

President Vladimir Putin has recently suffered an erosion of his political base, with declining approval ratings and the recent dismissal of a number of his aides. On the domestic front, the Putin administration has been characterized by measures designed to appeal to the general public, while on the diplomatic front it has adopted a notably hard-line stance aimed at placating conservative forces within Russia.

The pace of slowdown in the Russian economy is exceeding the initial projections, and amid shrinking revenues and rising inflation the government has not been able to implement any kind of bold package of measures—on either the monetary or fiscal front—to stimulate domestic demand. Meanwhile, in the field of energy exports—a priority area for Russia—the authorities have been working to maintain Russia’s dominant position in its primary market of Europe, while simultaneously pursuing a foreign policy strategy aimed at winning a substantial share of the expanding East Asian energy market.

Russia places a high strategic priority on the Arctic from the security perspective, in view of the need to secure the Northern Sea Route as well as develop natural resources in that region, and it plans to resubmit its application to the United Nations for the extension of the current limits of the Russian continental shelf. Moves to strengthen the country’s military presence in the region have also been observed. While heated arguments have taken place at summit meetings between Russian and US leaders over such issues as the Syrian conflict and the temporary asylum granted by Russia to Edward Snowden, the two sides have increasingly been finding common ground over other issues, including counterterrorism and nuclear disarmament. The relationship between Russia and the United States has thus continued to fluctuate between the two poles of confrontation and cooperation.

Following his appointment as minister of defense in November 2012, Sergei Shoigu has maintained a policy of pursuing military reforms aimed at realizing higher levels of combat readiness. To this end, he ordered the implementation of unscheduled combat-readiness inspections intended to check whether military units were capable of immediate response to sudden operational orders. These were the first such exercises to be implemented across the whole of Russia since the dissolution of the Soviet Union. While these large-scale snap inspections held in Russia’s Far East (involving the participation of roughly 160,000 troops) were taking place, five vessels of the Chinese Navy passed into the Sea of Okhotsk—the first such instance in history. As a result of this timing, some observers

speculated that the snap inspections were aimed at preparing the Russian military—principally the Pacific Fleet—to discourage future incursions into the Arctic Ocean and the surrounding northern seas by Chinese ships. The potential military threat posed to Russia by China is now being openly discussed by Russian military analysts, and apprehension regarding the threat to national security that may be posed by China in the future is growing. Russia has been placing greater importance on cooperation with Japan in the security field as a means of maintaining a diplomatic balance vis-à-vis China, leading to the holding of a meeting of the two countries' foreign and defense ministers (dubbed the "Japan-Russia 2+2"), at which progress was achieved in expanding cooperation in the security sphere.

1. Problems Faced by the Second Putin Administration

(1) President Putin's Political Base Seen to be Weakening

According to a survey conducted by independent polling organization Levada Center, President Putin continued to enjoy a high level of public support as of November 2013, with a 61 percent approval rating. Nonetheless, this represents a falloff from his 88 percent approval rating in September 2008. Conversely, the percentage of the public expressing disapproval of the president's performance grew from a mere 10 percent in September 2008 to 37 percent last November. Many observers believe that much of Putin's support stems from the lack of viable alternative leadership candidates, and that the proportion of the population who positively approve of the president's performance amounts to only about 30 percent. As reasons for this, the following factors are proposed.

The first is the feeling that the country's political system has been stagnating under Putin's continuous *de facto* leadership since the year 2000, as well as widespread discontent with the lack of progress made in eradicating corruption in public life and alleviating Russian society's widening economic inequalities—both of which had been among Putin's election pledges.

The second factor is that, although large-scale anti-Putin protests are no longer being seen, dissatisfaction among the electorate is growing on two fronts. In the provinces, the public is dissatisfied with the lack of involvement of the central government in social issues, while in the major urban areas the main concern is that Russia's progress toward real democratization is grinding to a halt, notably

Table 6.1. Putin's public approval ratings

(%; as of September each year, except 2013, which is as of November)

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------|------|------|------|------|------|
| Approve | 88 | 77 | 68 | 67 | 61 |
| Disapprove | 10 | 21 | 31 | 31 | 37 |

Source: Compiled from results of opinion poll conducted by Levada Center.

with respect to fair elections and freedom of the media.

The third factor, examined in detail below, is that Russia's economic growth rate has begun to slow down, and the general population is not enjoying much tangible economic benefit.

At the meeting of the Valdai International Discussion Club (which brings together leading experts from around the globe to debate Russia and its role in the world) held from September 19, 2013, Putin stated that he was keeping his options open with regard to the possibility of running once again in the 2018 presidential elections. This announcement is thought to have been motivated by the desire to avoid being stuck with the label of lame-duck president, and at the same time to put an end to squabbling over who is to be his successor. In addition to the weakening of Putin's political leadership, fears about his health have started to surface as his age approaches the average life expectancy of Russian men, and the feeling is fairly widespread that if he is reelected he may not be able to serve out his second term, which would end in 2024. Meanwhile, Prime Minister Dmitry Medvedev, who served as president between 2008 and 2012, has lost much of his former political clout, and is thought unlikely to run again for president in 2018. Consequently, no strong candidate has yet emerged as Putin's successor. Against this backdrop, the president has increasingly been taking more personal command over the drafting and implementation of individual policies, a form of direct micromanagement often referred to in Russia as "manual control."

Putin's second presidency, which commenced in May 2012, has been plagued by a series of dismissals of, and resignations by, key members of the Cabinet, and this is widely interpreted as evidence that Putin's control over his own government is in disarray. At a meeting held on May 7, 2013 to examine the record of implementation of presidential decrees in the year since Putin's reelection, he reprimanded his government officials for inadequate performance. The following day, Deputy Prime Minister Vladislav Surkov was effectively dismissed from his

post. Surkov had been seen as the main ideologue behind the Putin administration, and was an advocate of “sovereign democracy.” This de facto dismissal by Putin of a close aide—apparently for failure to implement his decrees—was an unprecedented event. In the Annual Presidential Address to the Federal Assembly, delivered on December 12, 2013, Putin criticized Surkov and other cabinet members for failure to implement presidential decrees. Prime Minister Medvedev, too, came under fire with regard to his responsibility for the stagnation of the economy, among other matters, leading to persistent speculation that he might face dismissal sooner or later.

In comparison to Putin’s first presidency, during which he took a proactive role in originating and implementing national policies that he believed were for the benefit of Russia, his present administration has moved toward policies designed to appeal to the general public, and this tendency is expected to intensify from here onward. On the domestic policy front, his measures have been notable for continuing the pork-barrel spending that began during the election campaign, while his foreign policy has been characterized by anti-EU and anti-US statements and actions. In other words, Putin’s style of rule no longer exhibits the fiscal austerity and realistic diplomacy that the world had come to associate with him. Through massive investments in the infrastructure required to host a series of international events—from the Asia-Pacific Economic Cooperation (APEC) summit meeting held in Vladivostok in September 2012, through the Winter Olympics at Sochi in February 2014, the Russian Grand Prix Formula One championship race scheduled from 2014, and the 2018 FIFA World Cup—Putin aims on the one hand to appeal to the Russian public by boosting national prestige, and on the other to enhance Russia’s position in the international diplomatic sphere.

In September 2013, the Russian city of Saint Petersburg hosted the G20 summit, and this will be followed by the G8 summit to be held in Sochi in June 2014. By holding these two major summits in Russia, Putin—who will have participated in such meetings more often than any other current head of state or government—will be able to make his presence more strongly felt on the international stage.

At the same time, moves are also being seen to further strengthen state control, continuing a trend that began right at the start of Putin’s first term in the year 2000. To cite some concrete examples, laws have been enacted which: (1) make it a crime to publicly express contempt for the country’s leadership, including in the

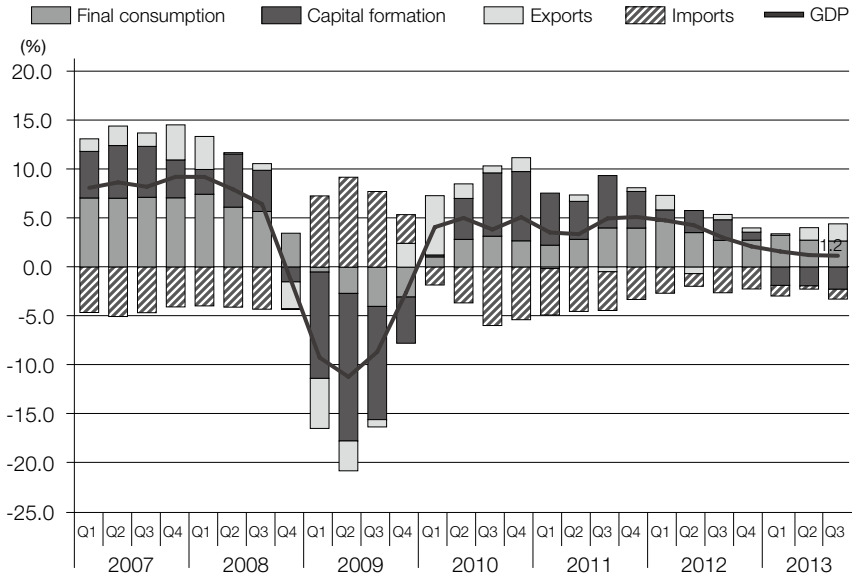
media, thereby imposing constraints on criticism of the government; (2) place limits on political activities by NPOs that receive funding from overseas; (3) place tighter restrictions on the organization of demonstrations or the holding of meetings; (4) prohibit so-called “homosexual propaganda”; and (5) criminalize the expression of contempt for religious worship. In response to these moves, a number of heads of state or government of Western countries announced that they would not be attending the opening ceremony of the Winter Olympics at Sochi. This is believed to have prompted Putin to pardon Mikhail Khodorkovsky, the former head of oil giant Yukos, who was serving a prison term for tax evasion, among other charges. In addition, an amnesty was extended to activists belonging to the environmental organization Greenpeace who had protested against Russian natural resource exploitation projects in the Arctic, and to members of the female punk rock protest group Pussy Riot, who had been imprisoned for staging an anti-Putin performance in a Russian Orthodox cathedral.

(2) Limited Scope of Economic Policy Measures, and Pursuit of Development Projects in Russian Far East

Following a slump caused by the global economic and financial crisis, the Russian economy had been steadily recovering up to 2012, but it then clearly entered into a recession, and the economic growth rate for 2013 was a mere 1.3 percent, well below the government’s initial projection of 3.7 percent (see Figure 6.1). Causative factors behind this recession include a shrinkage in both household consumption and gross capital formation against the background of a hike in utility charges in the summer of 2012, as well as high food prices, resulting in an inflation rate exceeding the targeted maximum of 6 percent. Other factors include a decline in inventory investment as the economic recovery ran out of steam, and stagnation in the economies of Europe, which is Russia’s principal trading partner.

Meanwhile, due to weak demand in Europe—Russia’s main export market—the country suffered a sharp falloff in revenues from oil and gas sales, which account for around 50 percent of total revenues. The government was thus forced to heavily draw down on the Reserve Fund—which was supposed to have been built up to finance its emergency economic stimulus package—to cover the budget deficits in 2009 and 2010. The Reserve Fund consequently amounted to only about 4.3 percent of GDP, falling well short of the targeted 7.0 percent, and the government was unable to implement the sort of large-scale economic stimulus

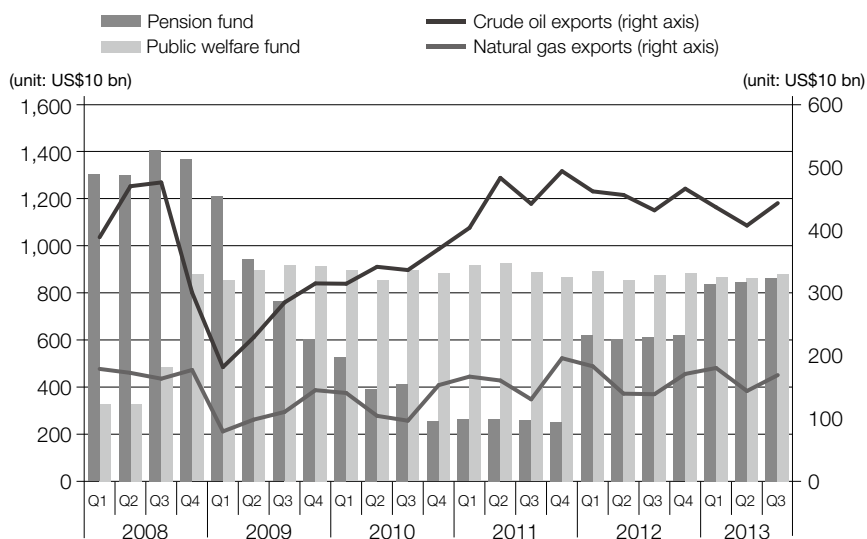
**Figure 6.1. Russian real economic growth rate
(yr-on-yr; with contributory ratios of principal factors)**



Source: Mainland Affairs Council website, data as of July 2013 on exchanges across the strait.

package centered on increased public spending that it had adopted in 2009 in response to the economic and financial crisis (see Figure 6.2).

Against the backdrop of a lack of promising growth sectors, it was widely feared that credit-easing measures would stimulate consumer spending rather than investment, leading to a sharp worsening of the financial burden on the average household due to a rise in unsecured consumer loans. The specter was also raised that monetary relaxation against the background of an already high inflation rate would lead to hyperinflation. The Central Bank of Russia thus had no choice but to leave interest rates as they were. In the end, all that the Russian government could do was to maintain fiscal discipline, and to prevent a worsening of inflation by holding down the margin of increase in utility charges and maintaining interest rates at their high level. This policy does not make good President Putin's promise in his December 2012 annual presidential address to work continuously to realize social and economic development so as to ensure that Russia remains a sovereign and influential country amid a new balance of

Figure 6.2. National pension and public welfare funds (term-end)

Source: Compiled from statistics issued by the Russian Federal State Statistics Service.

economic, civilizational, and military forces.

In January 2013 the Russian government approved a set of operating principles to guide measures to develop the economy, under the title of *Policy Priorities of the Government of the Russian Federation to 2018*. Because of the difficulty in securing sufficient funds to finance business expansion through borrowing within Russia, owing to the policy of leaving interest rates at a high level, the government had no choice but to seek capital participation from the private sector, including investments from overseas. Being under pressure to rein in government expenditure due to the sluggish economic growth, the authorities had to apply a set of priorities to the national programs (forty separate projects in five categories) that were already on the drawing board in order to winnow down the number of projects. Among the transportation-related programs that remained after this winnowing process, particular stress was placed on projects for the construction of infrastructure in the Russian Far East, in view of their importance for the economic and social development of this region.

These projects are aimed at facilitating a stronger linkage between the economy of the Russian Far East and the other Asia-Pacific economies, as well as more

effectively connecting the region with European Russia and assisting the development of various industries in the Russian Far East, notably the aviation and automotive sectors. In March 2013 the government approved the *State Program: Socioeconomic Development of the Russian Far East and the Baikal Region*. This program, which is to run from 2014 to 2025, has been allocated approximately 3.8 trillion rubles out of the budget of the Russian Federation, of which over 40 percent, or roughly 1.6 trillion rubles, will be spent on construction of transportation infrastructure.

The federal budget has been cut sharply over the 2014–2016 period in response to the recession, but spending continues to focus on the provision of transportation infrastructure, of which the centerpiece is the Trans-Siberian Railway, to which 4.9 percent of the budget has been allocated, exceeding the initial plan. Total budgeted spending on development programs in the Russian Far East has also been boosted to 2.6 times the original plan. In parallel with this, the government plans to actively inject foreign capital into its development programs. For example, in June 2013 the Seventeenth St. Petersburg International Economic Forum (SPIEF) was held, with the attendance of around 7,000 top corporate management personnel from both Russian and overseas enterprises, as well as institutional and individual investors. At this forum, Putin called for increased investment in transport infrastructure projects, stressing the safety of such investments, guaranteeing the management transparency of the projects, and revealing that 450 billion rubles would be disbursed to the projects from the National Wealth Fund (a welfare fund set up to support the pension system of the Russian Federation).

(3) Strategic Concerns in the Arctic Region

Arctic Region in recent years, and 2013 saw an intensification of this trend. The government plans to resubmit its application to the UN Commission on the Limits of the Continental Shelf (CLCS) for the extension of the current limits of the Russian continental shelf under the terms of the United Nations Convention on the Law of the Sea (UNCLOS). One of the purposes of the expedition to the North Pole in August 2007, during which a submersible planted a titanium tube containing the Russian flag on the seabed, was to emphasize Moscow's claim that the Russian portion of the continental shelf stretched as far as the North Pole. From the perspective of securing Russian interests in the Arctic, this expedition clarified the government's strategic focus on the Arctic, and it is drawing up a

long-term national strategy with respect to Arctic issues.

Geographically, Russia's territorial area and population in the Arctic, normally defined as the region north of the Arctic Circle (66° 33' N), are both the largest among the states bordering the Arctic. The Arctic region (known as the Extreme North or the Far North) plays a significant role in Russia's economy, accounting for 11 percent of GDP and for 22 percent of total exports. It has been speculated that the Arctic Ocean seabed contains roughly one quarter of the world's unconfirmed and unexploited reserves of natural resources, including such metal ores and other minerals as gold, silver, iron, zinc, tin, nickel, and diamonds, as well as energy resources including oil and natural gas. As this region accounts for a high proportion of Russia's total natural resources, these resources not only have a high strategic importance, they are also playing a major role in the growth of the Russian economy and the modernization of its economic structure.

One additional reason why Russia attaches great emphasis to the Arctic from the strategic perspective is the emergence of the Northern Sea Route as a viable marine transportation artery, due to the shrinkage of the area of the Arctic Ocean covered permanently by ice, as a consequence of global warming. Currently, the Northern Sea Route is blocked by pack ice for six months of the year, from November to April, and the route is only fully open to ships in the summer. Due to the rapid shrinkage of the pack ice cover, however, the period of each year during which passage is available to ships is increasing, and the possibility has emerged of year-round navigation in the fairly near future. The Northern Sea Route would cut the distance between the markets of Europe and East Asia by one-third compared with navigation via the Suez Canal, and would effectively eliminate the piracy problem. It thus opens up the possibility of a revolution in seaborne trade on a global scale.

As vessels plying the Northern Sea Route would be compelled to pass through portions of Russian territorial waters and its exclusive economic zone (EEZ), in accordance with Article 234 of UNCLOS, foreign vessels are required to comply with Russian regulations relating to navigation through ice-covered waters. This means that the vessel's operators must submit a prior application for passage approval, must comply with regulations on ship construction and course control, and must be escorted by a Russian icebreaker. These Russian regulations have come under criticism regarding their legitimacy under international law, as well as for lack of transparency in the process used to set the charges involved. On March 15,

2013, the Russian government established the Northern Sea Route Administration, and is moving swiftly to establish a full framework of administrative rules. On October 3, 2013, Putin stated that the Arctic was a region that was “an inalienable part of Russia” where it had exercised sovereignty for hundreds of years. He also indicated the intention of the Russian authorities to pursue development projects in the Arctic as a means of securing the country’s interests from the twin perspectives of national security and economic benefit.

In line with the official government document *Fundamentals of State Policy of the Russian Federation in the Arctic in the Period up to 2020*, published in September 2008, on February 20, 2013 the Russian government published another document, entitled *Strategy for the Development of the Arctic Zone of the Russian Federation and National Security for the Period up to 2020*. This document, which identifies specific policy issues that must be addressed by the government in all fields of activity pertinent to the Arctic region, and lays down specific tools for the implementation of such policies and other related matters, constitutes a complete action plan to guide Russia’s activities in the Arctic up to the year 2020.

In the military sphere, the document estimates certain future risks in the Arctic, and calls on the government to sure combat readiness and mobilization capabilities sufficient to deter the application of military pressure or actual attacks on the Russian Federation or its allies, and to unconditionally secure Russia’s ability to protect and assert its sovereignty in the Arctic—including its EEZ and continental shelf—while eliminating the existence of potential internal and external military threats in peacetime and repulsing attacks in the event of the eruption of conflicts, in consistency with the interests of the Russian Federation.

In addition, the document lays down principles for the maintenance of Russia’s military strength with respect to national defense and border control in the Arctic, based on the *State Armament Program for 2011-2020*, and calls for coordination between plans for the provision of Russian military capabilities and the country’s Arctic policies. In this light, one can view the document not as prescribing national security policies in the Arctic that are a continuation of the kind of buildup of military capabilities in which Russia has engaged up to now, but rather, as suggested by its title, an attempt to combine development in the Arctic region with security concerns and thereby formulate a comprehensive Arctic strategy. According to Nikolai Patrushev, secretary of the Security Council of Russia, the Arctic theater increasingly poses strategic risks to Russia due to a global

deterioration in the security environment resulting from conflicts over energy and food supplies, and due to the slowness of Russia's infrastructural investment in the Arctic, particularly investment in resource development and border surveillance.

In parallel with drawing up a set of policies to govern activities in the Arctic, Russia is also seen to be upgrading its military presence in the region with a view to protecting its national interests. In July 2008 the Russian Navy began regular patrols in the Arctic Ocean, and in the near future an Arctic special force is to be set up, consisting of units primarily from both the navy and the Border Guard Service. At a meeting of top officials of the Ministry of Defense on December 10, 2013, Putin said that military forces must be stationed at all basis in the Arctic where their presence is deemed necessary for national security and to protect national interests. He also ordered the defense ministry to establish new Arctic military units within 2014, and to commence work on renovating and upgrading the seven military airfields located in the Arctic. One of these, the Temp airfield on Kotelny Island one of the New Siberian Islands), had been closed in 1993 following the end of the Cold War, but in 2013 a missile cruiser of Russia's Northern Fleet was dispatched to the island to reopen the airfield, and an Antonov AN-72 transport aircraft landed there on October 29.

Moreover, according to Viktor Bondarev, Commander-in-Chief of the Russian Air Force, the air force plans to expand its network of bases in the Arctic. These include Rogachevo Airfield—a front-line airfield on the southern island of Novaya Zemlya used by Russia's long-distance air force units—which is the only one of its kind in operation within the Arctic region. In August 2013 the Pacific Fleet conducted maneuvers in which units of marines landed on Chukotka Peninsula in the Russian Far East, within the Arctic Circle. This was the first-ever instance of such drills in the Arctic. Then, in September, units of the Northern Fleet landed on Franz Josef Land in the Arctic Ocean (where nuclear tests and missile launches had been observed during the Soviet era) to carry out marine surveys. Following this, in late October the nuclear-powered icebreaker *Fiftieth Anniversary of Victory* carried the Olympic flame (for the Sochi Winter Olympics) to the North Pole for the first time in history.

A newly emergent factor that is affecting Russia's Arctic policies involves the recent ventures into northern waters of Chinese ships seeking to use the Northern Sea Route. For this reason, as explained in detail below, Russian military maneuvers held in the Far East region include those believed to be crafted in

response to China's expanding presence on the high seas. On May 7, 2012, upon taking office as president of the Russian Federation for his third term, Vladimir Putin issued a presidential decree, dated the same day, regarding the modernization of the armed forces and the defense industry, in which he issued an order for the strengthening of Russian military presence in both the Arctic and Far East regions. What is notable here is the president's pairing of the Arctic and Far East regions on an equal basis.

This is because the two regions—which Russia regards as strategically important—are linked by the Northern Sea Route, and the government has thus begun to view them as a single military theater from the strategic perspective. On December 20, 2013, Putin directed the Federal Security Service of the Russian Federation to reinforce the Border Guard Service in the Arctic and Far East regions. Russia's strategic emphasis on the Arctic is connected with moves to bolster the strength of both naval and border guard units in these two regions.

At the Russia-Japanese summit held from June 17, 2013, Putin made clear that Russia had supported Japan's request for permanent observer status at the Arctic Council, which had been granted in May of that year, and he also praised the Russo-Japanese resource development project underway in the northern part of the Sea of Okhotsk, which had been announced at the end of May. Other states simultaneously accorded observer status at the Arctic Council included China, India, Italy, South Korea, and Singapore, but Russia actively supported the applications for observer status only of India and Japan. Moreover, if the joint development project yields fruit, Japanese tankers will be constantly entering and leaving the Sea of Okhotsk, and thus the search and rescue operation drills jointly conducted by the Japan Maritime Self-Defense Force and Russia's Pacific Fleet, which have been going on since 1998 in the Sea of Japan, are expected to be extended to the Sea of Okhotsk. These moves are seen by most observers as being in response to China's growing naval presence in regions such as the Sea of Okhotsk and the Arctic Ocean, hitherto regarded by Russia as within its own sphere of influence, and they are also taken to indicate Russia's desire for further cooperation with Japan in both regions.

2. Russia's Position within a Changing Global Community

(1) Russia Pursues a Strategic Approach to Foreign Policy in the Energy Sphere

The economies of Europe, whose market as a whole accounts for roughly 80 percent of total Russian earnings from energy exports, are suffering stagnant growth in the aftermath of the global economic and financial crisis and the sovereign debt crisis, and energy demand is thus contracting. However, because Europe remains an important market for Russian energy exports, as part of its policy over the medium to long term, the Russian government is maintaining an energy supply structure capable of taking advantage of the recovery in European demand when that occurs. At the same time, the government perceives an opportunity opening up for energy exports to the East Asian markets, where demand is growing rapidly. It is therefore simultaneously aiming to establish a dominant position in this market, as Russia's energy reserves make it capable of supplying the lion's share of the increase in demand. This policy is reflected in the *Concept of the Foreign Policy of the Russian Federation*, published in February 2013. Against this backdrop, while the Russian government maintains top priority among its various foreign policies on strengthening its relationship with Europe, it has also clearly stated its intention to actively participate in the process of economic and political integration among the countries of the Asia-Pacific region, so as to take full advantage of the opportunities offered by the fast-growing markets of East Asia.

The government's activities vis-à-vis the East Asian markets are closely connected with the trend toward the liberalization of natural gas exports. At a meeting of the Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security in February, Putin directed the government to examine options for the step-by-step liberalization of exports of natural gas, in which area Gazprom has had a monopoly up to now. The purpose of this liberalization is to speed up the growth pace of LNG exports, which is lagging behind schedule. In this connection, the law relating to the granting of approvals for the export of gas was revised on December 1 to encourage an increase in the number of companies engaged in exporting LNG.

On the same day that the above meeting of the energy security commission was held, Igor Sechin, who is concurrently the executive secretary and CEO of state-

owned oil company Rosneft, signed a memorandum of agreement with the US-based international oil and gas company Exxon Mobil—with which Rosneft has had a strategic collaborative relationship since 2011—on the commencement of feasibility studies on a joint LNG project in the Russian Far East. Immediately following this, Sechin paid visits to South Korea, China, and Japan. In South Korea, he discussed the expansion of Russian LNG exports with top officials of Korea Gas Corporation (KOGAS), while in China he held talks on expanding the supply of crude oil—as well as joint development projects on China's continental shelf and LNG projects—with officials of China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC), and China Petrochemical Corporation (Sinopec Group). Finally, in Japan, Sechin held discussions with top officials of Sakhalin Oil and Gas Development Co., Ltd. (SODECO)—an investor in the Sakhalin I LNG development project (currently on hold) being pursued by Rosneft in partnership with Exxon Mobil—and with various private-sector companies that are shareholders in SODECO.

Following Sechin's visit to China, Russian Deputy Prime Minister Arkady Dvorkovich also visited China in February 2013 and held talks with Wang Qishan (then vice-premier in charge of economic, energy, and financial affairs) regarding the supply to China of natural gas from the Yamal Peninsula in LNG form and the supply of LNG via Vladivostok, as well as the supply of natural gas via a pipeline project under discussion between Gazprom and CNPC. In March, President Xi Jinping visited Russia—his first overseas visit after assuming office—and held talks with President Putin, at which they reached agreement on the following issues in the field of energy.

Regarding oil, Rosneft will supply an additional 16 million metric tons of oil per annum to CNPC over the next twenty-five years, while the China Development Bank will make loans totaling some two billion dollars to Rosneft. With respect to natural gas, Gazprom will undertake to supply 38 billion cubic meters of gas per annum to CNPC over a period of thirty years. Agreement was also reached on the choice of routes for the gas supply, over which the two sides had been arguing for some years, with the so-called Eastern Route proposed by China (through Siberia and Russia's Maritime Province) being selected. At the seventeenth meeting of the St. Petersburg International Economic Forum (SPIEF) in June 2013, agreement was reached between CNPC and the Russian independent natural gas producer Novatek, which is playing the leading role in development of LNG operations

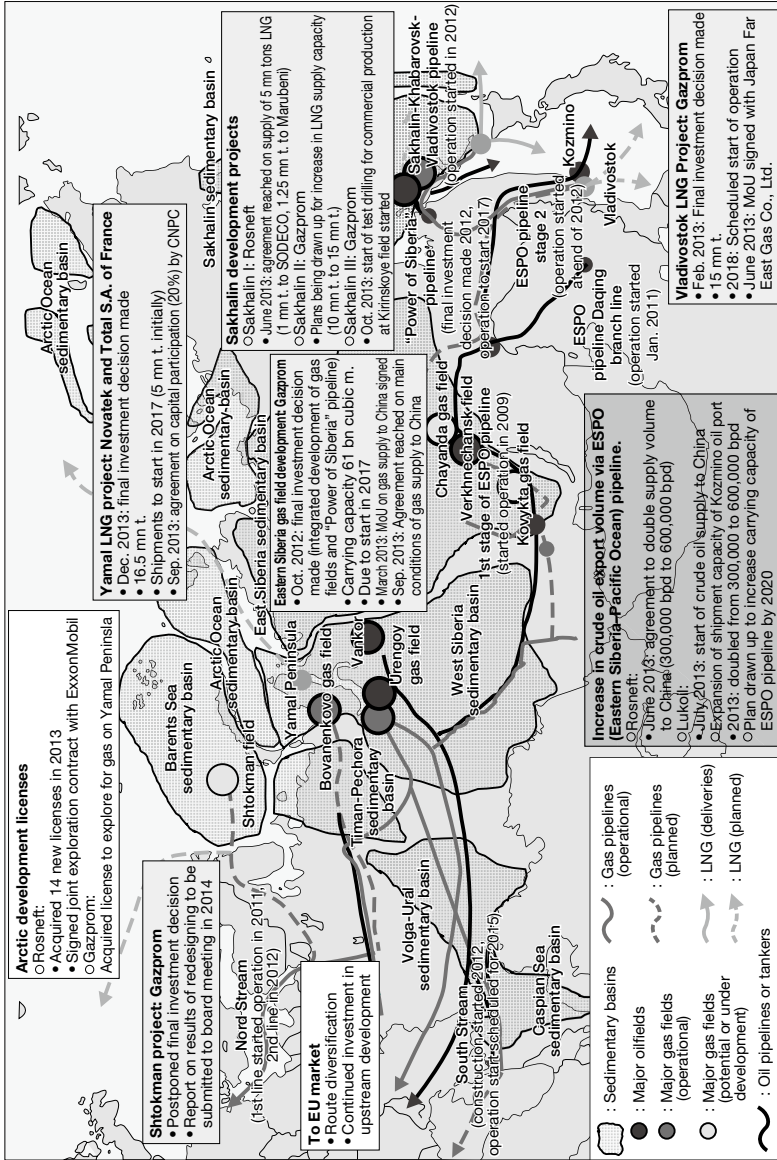
based on the Yamal Peninsula, in which CNPC will take a 20 percent equity stake. Simultaneously with the G20 summit in September 2013, in negotiations between Gazprom and CNPC, agreement was reached on the major terms and conditions of pipeline gas supply. The main sticking point of the negotiations has been the method of price setting, and the contract will include the stipulation that the gas price will not be linked to the US domestic spot market price.

Regarding agreements with Japan, in April 2013 Prime Minister Shinzo Abe paid an official visit to Russia for talks with President Putin, on which occasion the two leaders signed a memorandum on cooperation in the field of energy, and, at the working level, officials of the two sides agreed to push ahead with cooperative projects. When Rosneft CEO Igor Sechin visited Japan at the end of May, agreement was reached on joint development of the Magadan oil and gas field on the continental shelf under the Sea of Okhotsk, through the establishment of a joint venture between Rosneft and INPEX Corporation of Japan. At the meeting of SPIEF, a large number of memoranda and contracts were signed with respect to trade in energy resources. Notably, with regard to LNG exports from the Sakhalin-I project, Rosneft signed an agreement to sell 1 million metric tons of LNG annually to SODECO and 1.25 million metric tons to Marubeni, starting in 2019. In addition, Gazprom and Japan Far East Gas Co., Ltd. agreed to establish a joint venture company to construct an LNG plant in Vladivostok.

While this was going on Gazprom was reorganizing its LNG operations. First, in January it reached agreement with Novatek to establish a joint venture for the large-scale development of an LNG business in the Yamal Peninsula (in the Arctic). With this, Novatek will be effectively in charge of the LNG portion of developments on the peninsula, leaving Gazprom free to concentrate its efforts on developing gas resources for sale within Russia and to the European markets. With respect to the Shtokman LNG project in the Barents Sea, Gazprom postponed the final decision on investment in this project, which had originally been scheduled for the end of 2013, to give it time to redesign the project.

In East Asia, both the Sakhalin II and Sakhalin III projects appear to be proceeding smoothly. Gazprom reached an agreement with Royal Dutch Shell—its partner in the Sakhalin II project—to increase LNG export capacity, and in the Sakhalin III project test drilling was completed at the Kirinskoye field, from which gas will be piped to the LNG conversion facility at Vladivostok. With respect to this situation, in a recent speech Gazprom Deputy Chairman Alexander

Figure 6.3. Overview of Russia's redesigned energy policy



Medvedev was upbeat, saying LNG exports from Russia would be adequately price-competitive in view of the fact that, whereas exports of shale gas from the United States were of limited extent, Russia had enough gas volume to supply the fast-growing needs of the Asia-Pacific economies.

The developments described above seem to indicate that the purpose of Russian liberalization of the gas market is to allow Gazprom to concentrate its business resources on supplying gas (principally via pipelines) to Europe and China while maintaining its existing LNG export operations directed at the East Asian markets, but putting Rosneft or Novatek in charge of new business operations. In other words, the Russian state is firmly maintaining the system in which the government decides which businesses to support and invest in, so as to efficiently and effectively use and allocate the energy resources on which the strength of Russia as a nation depends.

(2) US-Russian Relations Fluctuate between Confrontation and Cooperation

Relations between Russia and the United States were distinctly unsettled during 2013 against the backdrop of the Edward Snowden affair and the unfolding tragedy in Syria. Snowden is a former employee of the Central Intelligence Agency (CIA) and a former contractor for the National Security Agency (NSA) who had been involved in information-gathering work for the US government. In June 2013, while staying in Hong Kong, he disclosed to the world press the extent and method of a global surveillance program conducted by the NSA. He then distributed copies of various classified documents to media outlets worldwide, and stated that in the event of his murder, all the documents in his possession would automatically be released into the public domain. On June 22, 2013, the US judicial authorities issued a warrant for Snowden's arrest, and the following day he left Hong Kong by plane on a trip to Ecuador, with scheduled stops at Moscow and Havana. However, as the United States had revoked his passport, he was stuck in the transit

zone at Moscow's Sheremetyevo International Airport, unable to fly onward to a country that would give him asylum.

Subsequently, as no extradition treaty had been signed between the United States and Russia, and in view of the fact that Snowden had committed no crime on Russian soil, the Russian authorities refused to hand him over to the United States, and he remained in the Sheremetyevo transit zone for thirty-nine days until August 1, when he was granted temporary asylum (valid for one year) by the Russian government. The United States responded to this action by canceling the one-on-one summit meeting that had been scheduled to take place in Moscow in September. Nevertheless, US-Russia "2+2" meetings did take place as planned in Washington on August 9.

On July 1, 2013, Putin stated that a condition of granting asylum to Snowden would be that he must stop his work aimed at harming the United States. This statement indicates that Putin was concerned that the Snowden issue might negatively impact US-Russian relations, and that he did not wish Snowden to indiscriminately leak all the confidential data in his possession. Putin's decision to grant Snowden temporary asylum is thought to have been motivated by his desire to gain the support of domestic factions that were taking a hard-line stance vis-à-vis the United States, including those among the military and the security services. It is also thought that Russia concurred with the United States regarding the undesirability of Snowden finding asylum in a Latin American country, where he might leak further classified data. Thus, Russia's granting of temporary asylum to Snowden, while not an ideal solution to the problem, would serve as a stopgap measure. However, as the asylum period is only for one year, it is possible that at some point the two governments will once again clash over what to do with him.

Another issue that is casting a shadow over US-Russian relations is the crisis in Syria. In response to confirmed reports of the use of chemical weapons by the Syrian government, President Barack Obama suggested the possibility of limited military intervention. The Russian government lambasted this statement as a misuse of the United Nations forum, and opposed any such intervention by the United States as a violation of international law. Foreign Minister Sergei Lavrov issued a statement regarding the Syrian situation on September 9, in which he proposed that the Assad administration agree to the destruction of its chemical weapons under international supervision. However, according to the Organisation

for the Prohibition of Chemical Weapons (OPCW), as the Syrian government possesses some 1,300 metric tons of weapons-use chemicals, including sarin, and it would thus be no easy task to totally destroy this chemical arsenal amid an ongoing civil war.

In a televised address to the nation from the White House on September 10, 2013, President Obama sought to gather support for military intervention in Syria, stating that, while America was not the world's policeman, the United States' policy is "what makes America different. It's what makes us exceptional." In an op-ed page contribution printed in the *New York Times* on the following day, President Putin maintained that it is extremely dangerous to encourage people to see themselves as exceptional, and that we must remember that "God created us equal." Then, on the 14th, following a meeting between the two countries' foreign ministers in Geneva, the United States agreed to the Russian proposal regarding Syrian chemical weapons. While the details of the proposal were not put forward by Russia, it turned out to be a means of rescuing the Obama administration from the difficult political predicament in which they found themselves following the rejection by both the Congress and the general public—as indicated by opinion polls—of the administration's military intervention proposal. The fact that Russia appeared to have influenced the actions of the president of the United States was interpreted by most observers within Russia as a victory for Russian diplomacy, and Putin was later selected as "the world's most influential person" by leading US business magazine *Forbes*.

Reasons why the Russian government was seen be involved in finding a solution to the Syrian crisis include certain national interests in the military sphere—such as arms exports to Syria and the use of Syrian ports on the Mediterranean as refueling stations for Russian naval vessels—as well as the fear that a victory for the antigovernment forces, which are supported by certain Islamic extremist groups, would lead to further social instability within Russia and in neighboring countries. In addition, in view of the strategic importance placed by the United States on the Middle East, Russia hopes that, by playing the role of an intermediary between the Syrian government and the West (the United States and Europe), it will increase its bargaining power vis-à-vis the US government by positioning itself on an equal level, and will thereby expand its influence among the global community. By the same token, the comparative lack of interest evinced by Russia with respect to the North Korean problem partly stems from the remoteness of

North Korea from Russian strategic concerns, and partly from the relatively limited strategic significance of the North Korean issue to the United States, by comparison with the Middle East.

Heated exchanges took place between Russia and the United States over both the Edward Snowden affair and the Syrian crisis, but this sort of surface political confrontation between the two countries' leaderships tells only one side of the story as far as the US-Russia relationship is concerned. It actually stems from the instability of both presidents' political bases, which have forced them to take a hard-line stance on foreign policy issues to gain the support of conservative factions and interest groups within their respective countries. In April 2013, Thomas Donilon, then assistant to the president for national security affairs, delivered a personal message from Obama to Putin, and the following month Nikolai Patrushev, secretary of the Security Council, delivered Putin's reply to Obama. In this and other ways, the two sides were seen to be engaging in constructive dialogue and seeking compromise over such issues of mutual concern as missile defense and nuclear disarmament.

The United States needs Russia's cooperation—over both the Syrian crisis and the nuclear disarmament issue—while for their part, the Russians hope to expand their influence within the global community of nations by being seen to engage the Americans in dialogue as equals, thus recovering the status they formerly enjoyed in Soviet times. Both sides will probably try to avoid more confrontation than is strictly necessary.

Russia and the United States have clashed over a wide range of issues, including those involving their spheres of influence—such as the deployment of missile defense systems in Europe and the expansion of NATO membership—as well as US criticisms of Russia's perceived retreat from democratization and suppression of human rights, and confrontation over political interference in the domestic affairs of Middle Eastern countries such as Iraq, Libya, and Syria, which in the former two cases led to actual military intervention. Conversely, as seen in the April 2008 signing of the *US-Russia Strategic Framework Declaration*, the two countries are finding a growing area of common interests relating to cooperation in the field of national security. This includes responses to nontraditional threats such as terrorism, as well as cooperation in nuclear disarmament and in the economic and natural resource fields, among others. Against the background of the scheduled withdrawal of US forces from Afghanistan during 2014 and the

recent threats made by Islamic extremists against the Winter Olympic Games at Sochi, cooperation between the United States and Russia in the prevention of large-scale acts of terrorism is assuming particular importance.

(3) Growing Fear of Security Risk Posed by China

President of the People's Republic of China Xi Jinping paid a three-day official visit to Moscow from March 22–24, 2013, his first overseas visit since assuming the post of president on March 14. In the joint communiqué issued following talks between Xi and Putin, the statement “relations between Russia and China are at an all-time high” was repeated, with the apparent aim of painting a rosy picture of Russo-Chinese relations to the outside world. However, the strategic partnership between China and Russia is seen to have peaked in the years around 2005, with the signing of an agreement on final demarcation of the Russo-Chinese border and the start of large-scale joint military exercises. The fact of the matter is that, in recent years, the relationship seems to have become increasingly complex.

In the March joint communiqué, Russia refused to accept the phraseology desired by China regarding an understanding of the events surrounding World War II. Furthermore, according to a high-ranking official in the Russian Ministry of Foreign Affairs, the Chinese side repeatedly urged Russia to present a united front against Japan regarding their respective territorial rights issues, but the Russians ignored China's overtures, and intend to maintain a neutral stance regarding relations between China and Japan.

The potential military threat posed to Russia by China—a subject that used to be politically taboo—is now being openly discussed by Russian military specialists and in the media. In April 2013 military analyst Vasily Kashin, senior research fellow at the Center for Analysis of Strategies and Technologies, in an article published in *Russia in Global Affairs* (a respected Russian specialist foreign affairs magazine) confidently asserted that “... a potential threat to its (Russia's) interests that may come from China is interconnected with all of Russia's apprehensions regarding its national interests, sovereignty, and territorial integrity. This potential threat is a significant factor in Russia's foreign and defense policy.” As specific examples, Kashin cited the emphasis within the military modernization program that is being placed on Russia's Eastern Military District (which includes the Russo-Chinese border), the analysis being undertaken of a scenario in which Russia might be forced to shift military forces from the

European part of Russia to its Far Eastern regions in response to a large-scale conflict, and the fact that most press statements on espionage cases issued by the Federal Security Service (FSB) concern China.

Additionally, in July 2013 Alexander Khramchikhin, a deputy director of the Institute for Political and Military Analysis, published online an analysis of a scenario in which the China military launches a lightning attack on Russia's Far East region with the aim of retaking territory lost to Russia in the nineteenth century. This article caused quite a stir among the overseas military analysis community. According to Russian experts in the national security field, the country's principal source of concern is not that China is increasing its conventional military power, but that the gap between the two sides' nuclear arsenals is narrowing. Russia's insistence since 2005 on possessing intermediate-range nuclear forces is the reason for Moscow's lack of enthusiasm for an agreement with the United States over a mutual reduction of tactical nuclear weapons.

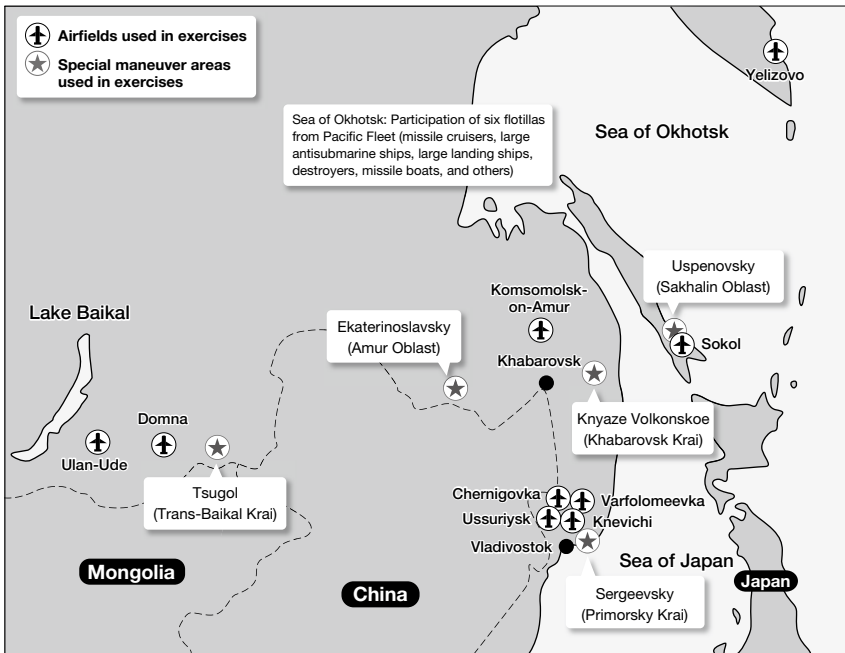
The traditional picture of the Russo-Chinese military posture, in which these two countries stood shoulder-to-shoulder against the United States and Japan, also no longer tells the whole story. The joint Russo-Chinese naval exercises conducted since 2012 under the name Maritime Cooperation have been accompanied right from the start by difficulties in getting the two sides to agree on the nature of the maneuvers or the locations where they were to be conducted. Agreement on the second round of maneuvers held on July 5, 2013, was only reached at the last minute at a meeting in Moscow between the respective chiefs of general staff. The Chinese side widely publicized the fact that these were to be the first military exercises held jointly with Russian forces in the Sea of Japan, but the Russians (whose Pacific coast ports would be host to the vessels taking part) insisted on maintaining a restrained stance vis-à-vis publicity, including putting limits on media coverage.

Moreover, while the exercises took place in the Sea of Japan, they were conducted not in international waters, but in the bay offshore of Vladivostok. This suggests a certain difference in enthusiasm between Russia and China regarding their ostensible joint stance for politically restraining the United States and Japan. Previous joint military exercises between Russia and China had been designed for "external consumption," i.e., to demonstrate to other countries the strategic cooperation between the two sides, but these recent exercises seem to have been more for "internal consumption." That is to say, they have been at least partly

intended to allow the two sides to assess each other's capabilities. On the Russians' part, the exercises gave them an opportunity to assess Chinese naval capabilities at first hand, which may prove vital as Chinese naval vessels are expected to venture into the Arctic Ocean at some future point. For the Chinese, on the other hand, these annual exercises give them an opportunity to observe for themselves the Russians' capabilities in antisubmarine warfare, which is an area where Russia is still more advanced. Finally, by inviting Chinese warships into the Pacific Fleet's main base at Vladivostok, the Russians probably hope to impress the Chinese with their military potential, and thereby to discourage the People's Liberation Army Navy from venturing into the Arctic.

On July 12, 2013, the final day of the joint Russo-Chinese naval exercises, Putin (who is, as the president of Russia, also the commander-in-chief of its armed forces) ordered Defense Minister Sergei Shoigu to implement—commencing the following day—surprise inspections (also known as “snap inspections”) to gauge the combat readiness of all forces in the Russian Far East. According to an announcement by the Russian defense ministry, these inspections—which were carried out in both the Eastern and Central Military Districts—involved the participation, at seventeen exercise areas, of roughly 160,000 troops, over 5,000 tanks and armored vehicles, more than 130 aircraft, and about seventy ships belonging to the Pacific Fleet. The inspections were on the largest scale since the dissolution of the Soviet Union, and entailed moving troops and vehicles rapidly—utilizing the Baikal-Amur Mainline railway—from Khabarovsk and other inland locations to the Russian coast on the Sea of Japan, as well as ferrying military units across to make landings on the western coast of the island of Sakhalin. In some cases, this involved a total trip of around 3,000 kilometers, and was thus a severe test of mobile redeployment capabilities. Meanwhile, combat exercises involving six flotillas belonging to the Pacific Fleet were conducted in the Sea of Okhotsk, and the 18th Machinegun-Artillery Division—stationed on the disputed islands northeast of Hokkaido's main island, which Japan refers to as the Northern Territories (Hoppo Ryodo)—also participated. Bomber aircraft flew close to Japan's airspace, and engaged in firing exercises over the Sea of Japan.

Simultaneously with these snap inspections, five Chinese naval vessels that had participated in the joint exercises with Russia sailed through La Pérouse Strait (also known as Soya Strait), which divides the Russian island of Sakhalin from

Figure 6.4. Military snap inspections in the Russian Far East

Source: Compiled from reports in the newspaper *Russia Now*.

the Japanese island of Hokkaido, into the Sea of Okhotsk. They then passed through the Kuril Islands archipelago and out into the Pacific Ocean, following which they turned south and then west, circling round Japan and returning to their home port. As if synchronized with this maneuver, two groups of Russian warships totaling twenty-three vessels—one group sailing in front of the Chinese ships and one following them—also passed rapidly through La Pérouse Strait on July 13 and 14, respectively, on their way to an exercise area in the Sea of Okhotsk. For this reason, it is thought by some observers that the snap inspections may have been aimed at readying the Russian naval forces to keep a close watch on the Chinese ships' first venture into the Sea of Okhotsk. As reasons for this interpretation, one may cite three factors, as follows.

Firstly, the voyage of the *Xuelong* (Snow Dragon), a Chinese icebreaking research vessel, in the summer of 2012 through La Pérouse Strait and across the Sea of Okhotsk on its way to the Arctic—where it conducted a research expedition

—was similarly timed to coincide with the first round of military maneuvers held that year, involving some 7,000 personnel.

Secondly, the two locations chosen for Putin to view the exercises (navy and army, respectively), were situated in Sakhalin Oblast, facing the Sea of Okhotsk (into which, as described above, the Chinese warships “intruded”), and in Trans-Baikal Krai, which abuts the border with China, and the president’s observation of the exercises was extensively reported by the Russian media.

Thirdly, the snap inspections, which were conducted to test Russian military units’ combat readiness, involved fewer than 9,000 personnel in the case of other regions, but in the Far East district, 160,000 troops took part. It cannot be stated with certainty that the exercises were designed specifically with China in mind, but the fact that they were held immediately following the joint maneuvers with China’s navy is taken to mean that the Russians were not averse to the possibility that third parties might interpret them in that way.

The following August and September saw further naval exercises in the Sea of Okhotsk and the Bering Sea and neighboring waters, involving fifty ships as well as 5,000 navy and other military personnel. The fact that these exercises occurred just as a Chinese cargo vessel was on its way through La Pérouse Strait and into the Sea of Okhotsk—bound for the Netherlands via the Arctic Ocean on the first-ever such voyage for a container ship—lends further credence to the above speculation that they were designed with the Chinese threat in mind. Furthermore, midway through the exercises, on August 16, Russia submitted an application to the CLCS for the extension of its continental shelf as far as the middle of the Sea of Okhotsk, involving an increase in Russia’s seabed territory of 50,000 square kilometers. Since the Cold War era, Russia has regarded the Sea of Okhotsk as a *de facto* Russian inland sea—a “sacred area” set aside for the use of Russian vessels, notably its nuclear submarines. Against this backdrop, Russia is believed to have taken this action for military reasons, as a way of opposing the use of Sea

of Okhotsk as a shortcut to the Arctic Ocean by Chinese vessels. In a presidential decree issued in May 2012, Putin directed the military authorities to strengthen the country's forces in both the Arctic and the Far East, and it is difficult to believe that this move was directed solely against the United States and Japan.

Russo-Chinese relations have been likened to a marriage of convenience, and no outright “divorce” is expected for the foreseeable future. The relationship is not likely to develop into a military alliance, but neither is a definitely antagonistic relationship foreseen. However, with China's GDP increasing to more than four times that of Russia, in view of the constantly growing gap in economic and military power between the two countries, if Russia is not to end up playing the role of “junior partner” to China—reversing its previous role (under the name of the Soviet Union) as China's “big brother”—it will need to seek ways of maintaining the bilateral balance of power through diplomatic channels, by forging stronger strategic partnerships with third countries. This tendency is likely to increase in parallel with the growing power gap between the two countries.

(4) Progress Seen in Dialogue between Russia and Japan on Security Issues

The first in a planned series of “Japan-Russia 2+2” meetings between the two countries' foreign and defense ministers took place in Tokyo on November 2, 2013. The holding of this meeting, at which the participants discussed a wide range of issues relating to national security strategy, had been agreed on during Prime Minister Abe's visit to Russia (the first such official visit in ten years) on April 29, 2013, and the meeting signaled the start of a new era of Russo-Japanese cooperation in the field of national security. Japan has been holding such meetings with its ally the United States of America since 1960 and since 2007 with Australia, whose prime minister has called Japan “our closest friend in Asia.” Russia has now become the third country with which Japan has this special diplomatic relationship.

On its part, Russia also holds such two-plus-two meetings with the United States, the United Kingdom, France, and Italy. Japan has thus become the fifth such partner, but the first one to be situated in Asia. It is highly significant that Japan and Russia—which have not yet signed a peace treaty following the end of World War II—have nonetheless managed to create a mechanism that allows four cabinet ministers to meet for discussions on national security issues. The two sides have

begun to view one another as strategic partners, and these meetings indicate that their bilateral relationship has been raised to a notably higher level involving issues of broad strategy. Moreover, the meetings send a signal to other countries that Japan and Russia have suddenly forged a much closer relationship as a response to the changed strategic environment in

East Asia. In addition, the Japanese government's establishment of the National Security Council means that henceforth there will be a direct communications link between the Prime Minister's Office and the Kremlin, opening up the way to the establishment of a multi-layered national security cooperation framework.

In November 2010 political relations between Japan and Russia reached a new post-Cold War low when President Dmitri Medvedev visited Kunashiri Island (one of the islands that constitute the disputed Northern Territories). The fact that a "2+2" meeting of cabinet ministers should take place a mere three years later is due to the following two factors. Firstly, as far as the respective domestic scenes are concerned, the political situation in both countries became more stable with the commencement of the second Putin administration and the second Abe administration in 2012. Secondly, on the international front, a number of events caused a shift in the strategic environment surrounding Russo-Japanese relations, including missile launches and nuclear weapons tests by North Korea, and China's emergence as a maritime power. Thus, what has changed is not so much the relationship between Japan and Russia as their common strategic environment.

The purposes of the two-plus-two meetings can be summarized as follows.

Firstly, the meetings will foster confidence-building between the two countries. According to the results of a Japanese public opinion survey on foreign policy released by the Cabinet Office in November 2013, more than 70 percent of respondents did not look at Russia with friendly eyes. Meanwhile, in a public opinion survey in Russia conducted by the Public Opinion Foundation, when asked to list the greatest "threat to the integrity of Russian territory," in order of precedence, 15 percent of respondents cited China, followed by immigration at 9

Agreements reached at the first “Japan-Russia 2+2” meeting (November 2, 2013)

1. Counterterrorism and anti-piracy measures
 - Joint counterterrorism and anti-piracy exercise between the Maritime Self-Defense Force and the Russian Navy
 - Joint Training exercises involving the anti-piracy units of both countries in the Gulf of Aden
 - Joint human resource development project for combating the drug trade in Afghanistan at the Domodedovo Interior Ministry Personnel Training Center
2. Defense exchange
 - Regular mutual visits by both defense ministers
 - Establishment of Japan-Russian Navy-to-Navy Staff Talks
 - Cooperation in the field of defense medicine (cooperation in the hygiene field of humanitarian assistance/disaster relief)
 - Regular Ground-to-Ground unit exchange and mutual dispatch of training observers
 - Initiation of discussions for the early dispatch of Air Self-Defense Force transport aircraft
3. Meetings and discussions
 - Establishment and regular hosting of the Japan-Russia Cyber Security Meeting
 - Discussions and information sharing on peacekeeping operations during Military-Military Talks
 - Initiation of discussion on sports exchange opportunities

Source: Compiled from Results of the First Japan-Russia Foreign and Defense Ministers' Meeting, issued by Japan's foreign and defense ministries.

percent, “a number of foreign countries” at 8 percent, Japan at 7 percent, the United States at 6 percent, and Europe at 4 percent. These polls clearly show that mutual distrust left over from the Cold War era constitutes a major obstacle to the positive development of Russo-Japanese relations.

Secondly, they will help the two countries to reach a closer understanding with respect to the strategic environment in the Asia-Pacific region. At the recent meeting, Defense Minister Shoigu expressed concern regarding the apparent intention of the United States to extend the coverage of missile defense systems across large parts of the globe. Despite such misgivings, Russia recognizes the value of the Japan-US alliance as a stabilizing factor in the region, and the two countries share a virtually identical position with regard to the problems posed by North Korea. In these ways, Russia and Japan are coming to occupy increasingly

closer positions on regional security issues.

Thirdly, it is hoped that the meetings will facilitate the institutionalization of Russo-Japanese security and cooperation efforts. The recent visit to Japan by Russia's defense minister was the first such in ten years, and the two-plus-two meeting was the first time in seven years that the two defense ministers had held discussions. It is highly significant that the ministers responsible for Japan's Self-Defense Forces and the Russian armed forces now have a format enabling them to meet on a regular basis. Defense Minister Shoigu, who assumed his present post in November 2012, was previously Minister of Emergency Situations from 1994 to 2012. He enjoys a considerable degree of confidence among the Russian public, and is seen as a leading candidate to succeed Putin. Shoigu has made overseas trips only to Russia's close allies and to countries with which Moscow has similar two-plus-two arrangements. For this reason, many observers see his personal attitude toward Japan as the key to the future development of Russo-Japanese relations.

Russia's new emphasis in its foreign policy on relations with Japan—as evidenced by the start of the series of two-plus-two meetings—results from a political initiative by Putin in the background to which lies the aim of diversifying Russia's diplomatic relations in Asia, which had formerly been notably biased toward China. Putin believes that, as the Russo-Chinese relationship is becoming increasingly unequal due to the growing gap in economic and military power between the two countries, if Russia is to be able to pursue its foreign policy in a way that is to its advantage, it will need to seek ways of maintaining the bilateral balance of power through diplomatic channels, by forging stronger strategic partnerships with third countries including India, Japan, Vietnam, and South Korea. Putin's trips to Vietnam and South Korea in November 2013 were part of this policy. As long as Russia is not content to play the role of “junior partner” to China, the Russian authorities can be expected to continue working to reinforce relationships with other Asian countries.

At the present time, however, cooperation in the security fields between Russia and Japan is in the sphere of political speculation, as a large number of issues remain to be addressed before any substantive military cooperation is possible. The present Russian attitude to Japan contains contradictions between its political and military sides. The items on which agreement was reached at the first two-plus-two meeting (see the reference data below for further details) all revolved around cooperation in nontraditional national security fields, and in addition,

Russian aircraft violated Japan's airspace on two occasions (in February and August) in 2013. These incidents indicate that the Russian military are not yet completely on board with the political initiative toward cooperation with Japan in the security field that is being pushed by the Kremlin.

Reasons why the Russian military are unenthusiastic about cooperation with Japan in the security sphere are thought to include distrust of Japanese and American intentions—a leftover from the Cold War era—as well as a lack of recognition that Japan is an autonomous player in the military field, and not merely a pawn of the United States. While the Russian military maneuvers held recently in the Far East region were accompanied by less of the anti-Japanese rhetoric that formerly characterized such events, it is unclear whether or not the political intentions that lie behind Putin's foreign policy emphasis on Japan have filtered down to the level of the military units stationed in the Far East region. This will be a crucial point with respect to the further expansion of cooperation between the two countries in the field of defense.

In addition to the disparity in enthusiasm between the Russian government and military regarding discussions and cooperation with Japan, a vertical chain-of-command structure is deeply entrenched in both Russia's foreign and defense ministries, and the Kremlin's political agenda is not yet being adequately reflected in the actions of either ministry toward Japan. The main theme to be addressed for the time being by the Russo-Japanese two-plus-two meetings, and by meetings of Japan's National Security Council, is surely to urge the Russian foreign and defense ministries to adopt a unified and coherent stance vis-à-vis Japan, in compliance with Putin's directions. Because the Russian military authorities see the Northern Territories as militarily valuable, they appear to regard the return of these islands to Japan as very difficult to achieve for the time being if Russia's national security is to be maintained. It seems that a solution to this territorial dispute depends, among other things, on Putin being able to create conditions under which the military will be able to accept his political decision on the matter.

In the absence of a peace treaty with Russia, with which it has an outstanding dispute over territory, there are naturally limits to the degree to which Japan can cooperate in the security field. Although progress has been made in interaction between the Japanese and Russian defense authorities since 1999, a number of causes for apprehension remain, including repeated incursions into Japanese airspace and the modernization of military units stationed on the disputed islands

just northeast of Hokkaido's main island. Clearly, the mutual distrust that has prevailed since the Cold War era has not been completely dispelled. However, a new frontier has been opened up in the form of cooperation in the security field, complementing the existing cooperation in the fields of business and natural resources, and this is highly significant from the viewpoint of broadening the horizons of Japanese-Russian relations. From the perspective of making progress in negotiations on a solution to the long-standing territorial dispute, too, this cooperation will, so to speak, broaden the arena in which those negotiations will be conducted, and may give Japan some additional leverage. In the National Security Strategy, which received Cabinet approval on December 17, 2013, the Japanese government states 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."

In addition, in the National Defense Program Guidelines, which were revised simultaneously with the drafting of the National Security Strategy, the government stated that it intended to work to achieve a greater understanding of the intentions that lie behind Russia's military activities, and to strengthen its relationship of trust with Russia through dialogue on national security issues, principally via the two-plus-two ministerial meetings, as well as through the pursuit of a broad range of high-level exchanges and unit-to-unit military exchanges. At the same time, the document stated that Japan will reinforce cooperation with Russia in the field of joint military exercises and training so as to contribute to regional security. It goes on to say that Japan should take the opportunity of the start of the two-plus-two meetings to initiate a full-scale discussion regarding how effective the Russo-Japanese national security cooperation can be in the Arctic and East Asia as well as other regions, while keeping an eye on developments in and moves by China.

3. Russian Military Aims to Enhance Combat Readiness

(1) Snap Inspections Ordered with Goal of Further Enhancing Military Reform

On November 6, 2012, Defense Minister Anatoly Serdyukov was dismissed by President Putin for involvement in a graft case relating to Defense Ministry

contractor Oboronservis. He was replaced by Sergei Shoigu, who had been governor of Moscow Oblast. At the same time, Nikolai Makarov, chief of the General Staff and first deputy Defense Minister, was also dismissed from his post and replaced by Commander of the Central Military District Valery Gerasimov. Serdyukov, after five years in the post, had already tendered his resignation as defense minister once, just before President Putin's cabinet appointment in May of 2012. On that occasion, Putin persuaded him to stay in his post because he had confidence in the military reform efforts being pursued by Serdyukov. Among the military, however, there was growing dissatisfaction with the way the defense minister was conducting this reform program.

Serdyukov, who had formerly led the Russian federal tax service, pursued a bold course of military reform as defense minister, causing considerable friction with top military personnel. By contrast, Shoigu, who holds the rank of General of the Army, has worn his uniform when meeting with officials of the military, and is able to work as one with them to make progress in implementing the government's defense policies. One of his notable actions has been to reinstate to their previous ranks officers who had been forced to retire or demoted as a result of downsizing of the armed forces. For example, Sergei Makarov had been commander of the North Caucasus Military District and had directed operations during the Georgia-Russia crisis in August 2008, but was thereafter retired from active duty and placed on the reserve list (with the rank of general). In February 2013, Defense Minister Shoigu appointed Makarov as commandant of the Military Academy of the General Staff (the highest-level educational institution in the Russian military).

Another difference in Shoigu's approach is seen in the maintenance of military equipment, which under the previous defense minister had been entrusted to private-sector corporations. In response to growing charges of inefficiency, Shoigu returned to the former system under which equipment maintenance was performed by units within the armed forces. With the exception of the 18th Machinegun-Artillery Division, whose troops are stationed on the islands of Japan's Northern Territories, almost all units of the Russian Army had been downgraded as part of the reforms pursued by former Defense Minister Serdyukov from division strength to brigade strength, but prior to May 9, 2013 (which is Victory Day, celebrating the victory over Nazi Germany) two brigades stationed in Moscow Oblast were upgraded to division level. It is unclear, however, whether

this was a mere change in nomenclature, or whether the brigades in question had actually been restructured into divisions in real terms. At the present time, no moves have been seen toward a full-scale reinstitution of the Russian Army's former division-level strength.

In such ways, while moves are being observed to partially retrench the military reforms implemented under Defense Minister Serdyukov, the fundamental military reform policy pursued by President Putin remains in place, and in January 2013, Chief of the General Staff Valery Gerasimov stated that there had been no change in Russia's military reform goals. This statement is confirmed by the details of military exercises and weapons provision that are examined below. On the other hand, certain obstacles remain in the way of this military reform path. Modern military equipment and command depend on highly trained personnel, but because there are insufficient funds available to finance the sort of conditions (including pay and educational opportunities) that will attract the sort of people Russia needs as full-time career soldiers, the country is forced to continue relying on conscription. Only a small percentage of the population is subject to conscription, and many of those people dodge the draft because of their aversion to the unruly discipline within the armed forces, among other reasons. Another problem is that the construction of housing for armed forces personnel is falling short of the targets.

Following the reform of the chain of command in Russian military districts and army units, four military exercises at the strategic level were held between 2009 and 2012, and the Western Military District exercises held commencing September 20, 2013 on the territories of Russia and Belarus under the name of Zapad (West) 2013 were the second under that name. The Zapad 2009 exercises (held in 2009) were conducted prior to the reorganization of military units, and followed a scenario of Soviet-era-style large-scale mobilization and the use of nuclear weapons. By contrast, Zapad 2013 was in line with the common security arrangement between Russia and Belarus, and was based on the lessons learned by the Russian defense ministry in regional conflicts.

In other words, following the post-2010 trend, it was an exercise in responding to threats posed by small-scale terrorist groups. Although Russian and Belarusian troops were deployed during these exercises over a wide area ranging from the Russian exclave of Kaliningrad on the Baltic coast to the territory of Belarus, the exercises showed no tendency to revert to large-scale operations centered on

division-strength units. This indicates that Russia is maintaining its basic policy of converting the organization of the military from one based on divisions, which facilitate large-scale mobilization, to one centered on brigade-level units, which have superior combat readiness.

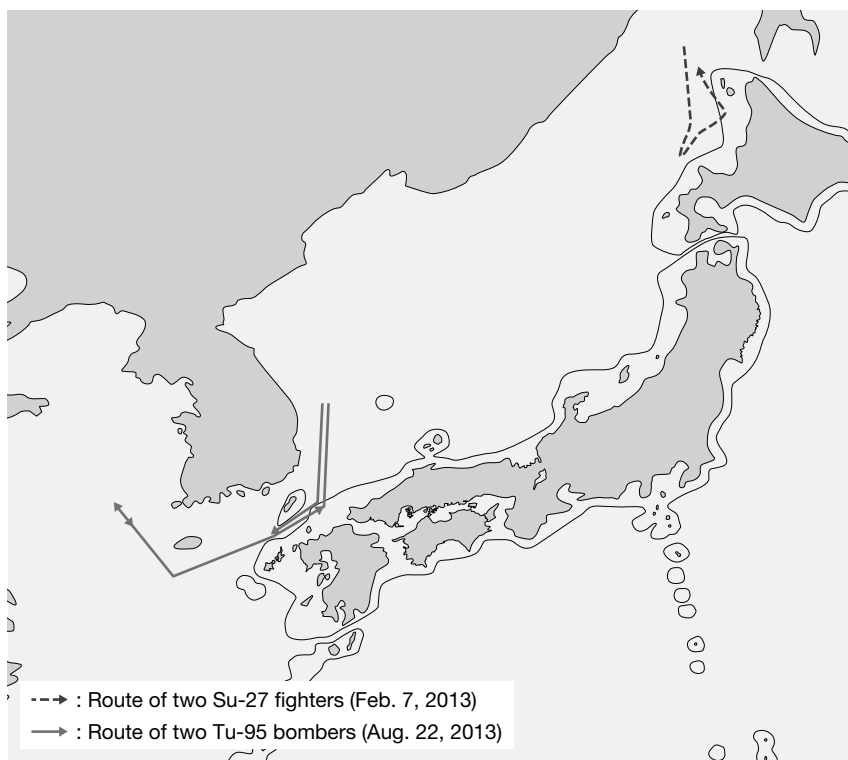
The snap inspections conducted from February 2013—the first such since the dissolution of the Soviet Union—were intended to test the military command structure, the state of materiel, and the adequacy of troop numbers. They can be described as a new approach to achieving further improvement as part of the military reform effort. No prior announcement of these inspections was made to the frontline units: operational orders were issued without warning, and this was thus an effective way testing the units' combat readiness and ability to perform their duties. Such exercises were conducted within 2013, encompassing all four military districts and all strategic missile forces. Regarding the results of the surprise inspections carried out in February within the central and southern military districts, Chief of the General Staff Valery Gerasimov criticized the first-response system and pointed to inadequate communications—indicating that the military personnel were not fully familiarized with the communications equipment—and severely criticized the training and education provided at military schools.

Subsequently, in March, President Putin, in his capacity as commander-in-chief of the Russian armed forces, returned from a visit to South Africa and without warning issued an order to commence snap inspections of the forces in the Southern Military District and the Black Sea Fleet, among others. He subsequently observed the inspections. At a meeting of top officials of the defense ministry held on December 10, 2013, Putin stressed that the results of these snap inspections showed the necessity for improvement in the operational capabilities of the armed forces, and he stated that the Vostok 2014 strategic maneuvers—scheduled to take place in 2014 in the Eastern Military District—must reveal substantive improvements.

As described above, the snap inspections conducted mainly in the Eastern Military District that began in July involved the participation—according to a defense ministry announcement—of approximately 160,000 troops, which is the largest scale since the dissolution of the Soviet Union. Rather than amassing large numbers of troops in one limited area, the exercises involved rapid operational maneuvers over a large range of locations. They entailed the rapid movement of troops in some cases by as much as 1,100 kilometers to the Eastern Military

District, where the exercises took place, from the Central Military District, utilizing transport planes and special army trains, among other means of transport. The exercises also involved target practice and anti-aircraft and anti-submarine drills in the Sea of Okhotsk, as well as troop landing maneuvers on the surrounding coasts. Tupolev Tu-95MS planes (strategic bombers and missile platforms) were flown from Ukrainka air base in Amur Oblast to the Sea of Okhotsk and the Sea of Japan. The Russian Pacific Fleet has been holding large-scale maneuvers every summer since 2011, mainly in the Sea of Okhotsk, and the fleet conducted training maneuvers both on the high seas and in surrounding coastal waters immediately before and after the snap inspections. In view of the priority being given to the

Figure 6.5. Incidents of violation of Japanese airspace by Russian military aircraft



Source: Compiled from information released by the Japan Ministry of Defense.

Pacific Fleet over other military units in terms of allocation of resources, and also considering the fact that its geographical area of operations has been expanded to include the Sea of Okhotsk and the Arctic Ocean, it appears that the Pacific Fleet is being readied to face an expansion of Chinese naval activity into northern waters at some time in the future.

Regarding recent developments in the Russian Air Force, Tu-95s continue to make flights close to Japan's borders, an activity that was restarted in 2007. Japan's airspace was violated by two Su-27 fighter planes that flew close to Rishiri Island (off the northwestern coast of Hokkaido) on February 7, 2013, and by two Tu-95s that flew close to Okinoshima (an island off the coast of Fukuoka Prefecture) on August 22, 2013. These were the first Russian violations of Japan's airspace for five years (since 2008). Incidentally, Russian military aircraft also violated the airspace of Finland in May and June of 2013.

(2) Defense Spending against the Backdrop of Strict Fiscal Discipline

The Russian government was faced with a difficult fiscal management situation in 2013. By the end of the first half of 2013 it had become clear that the federal government's revenue would fall well short of the projections made in December 2012 at the time of approval of the "Federal Law on the Federal Budget for 2013 and the Planning Period of 2014 and 2015." For this reason, the government held down spending under the fiscal 2013 budget. It was also forced to revise downward its revenue estimates for the next three years (2014–2016) under the 2013 federal budget law while limiting spending to priority projects only, and to reduce the de facto amount of total spending. Amid these circumstances, the way in which defense spending was treated was unique.

In the first place, among the separate expense items within the defense budget, a presidential directive of May 2012 had specified certain items as state priorities, i.e., the armed forces' payroll costs, the costs of military housing and other provisions for the daily lives of military personnel, and the costs of modernization of the defense industry. In particular, modernization of the defense industry was highlighted not only as important for the direct modernization of the military's capabilities, but also as an important means of enhancing the competitiveness of Russian arms in the global market and thereby increasing revenue from the export of weapons, which would eventually promote the growth of the economy, centered

on technological innovation.

For these reasons, special projects for modernization of the military had already been earmarked, mainly under the massive 23-trillion-ruble budget for the *State Armament Program for 2011–2020*, and these items were given priority in the budget allocations each year. Moreover, in relation to plans for reform of higher education up to 2015, a plan has been advanced for the construction of a high-level research and development system for the military along the lines of the Defense Advanced Research Projects Agency (DARPA) of the United States. In this way, the Russian authorities have revealed their decision to pursue a policy of comprehensive and integrated military modernization, with especial focus on the modernization of weaponry and other materiel.

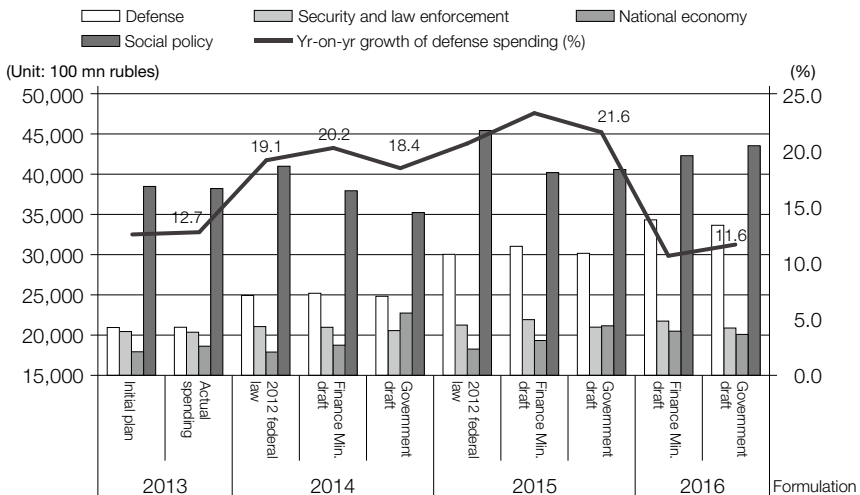
In the draft budget released by the Ministry of Finance on July 18, 2013, revenue forecasts for 2014 were revised downward, and in parallel, the allowable expenditure ceiling was also lowered. Despite this reduction in overall budget expenditure, defense spending for 2014 was actually increased by 16.8 percent compared with the amount prescribed by the federal budget for 2012, from 2,501.4 billion to 2,527 billion rubles. This amounts to a year-on-year growth of 20.4 percent, and contrasts sharply with the de facto freezing of spending under the category of “national economy” at plus 4.4 percent year on year and the major reduction in “socio-cultural arrangements.” However, when the Russian Federation’s economic statistics for the first half of 2013 were released in August, the economy’s slowdown was found to have exceeded the forecast, and there were uncertainties about the global economy’s prospects. This necessitated a cautious estimate for economic growth, and forced the government to revise the budget. At a meeting of the cabinet in September, the decision was taken to reduce the scale of budget expenditure as a whole over the following three years and to reexamine the allocations within the new budget framework.

On that occasion, regarding the downsizing of expenditures and the budget revision, Finance Minister Anton Siluanov explained that the government planned to save 1.5 trillion rubles by ending the practice of linking the pay of public sector employees (including military personnel) to the price of goods, and by cutting government procurement costs by 5.2 percent as well as postponing certain defense spending items, thereby offsetting the 1.5 trillion ruble shortfall in revenues forecasts over the 2014–2015 period. Thus, defense spending had ceased to be an exceptional item that was always exempted when budget allocations were revised.

As Figure 6.6 shows, in the Finance Ministry's draft budget, 2,527 billion rubles was originally earmarked for defense spending in 2014, but was cut to 2,489.4 billion rubles, which was 18.4% higher than the preceding year's level. In addition, spending on social policies was further reduced, and the savings from these two reductions were allocated to national economy spending and other items. National economy spending was increased by 26.7 percent year on year, to 2,279.6 billion rubles, a rise of roughly 400 billion rubles, and this increase was allocated to short-term economic measures. Upon examining the breakdown within defense spending, in Figure 6.7, we see that growth is to be held down in the budget for 2016. Particularly notable is the small margin of growth in spending on research and development allocated for 2015. This austerity budget was signed into law by President Putin on December 2, but in fact preparations were being made to put off procurement of military equipment until 2017 or later.

At a meeting of the Security Council held just before the Finance Ministry submitted its draft budget to President Putin, the president explained that the practice of revising military personnel pay and pensions upward would no longer continue, and emphasized that it was impermissible to impose an inordinate

Figure 6.6. Trends in Russian budget allocations amid fiscal constraints

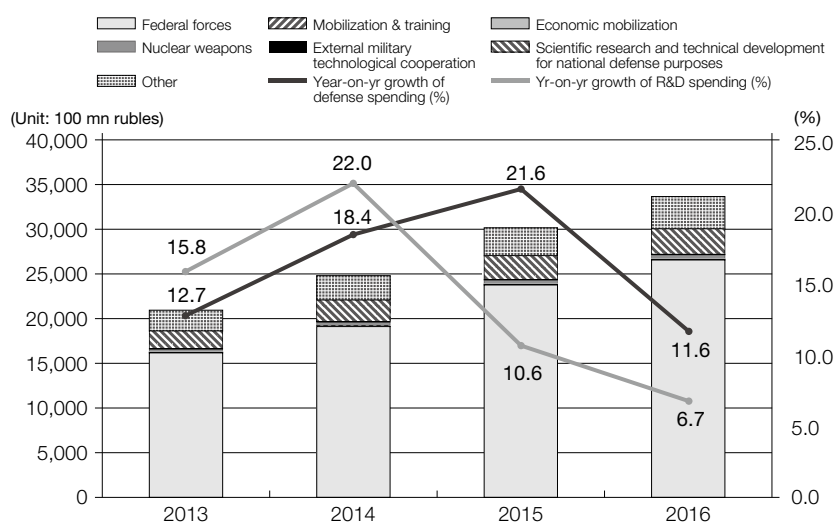


Source: Compiled from explanatory materials issued by lower house of Federal Assembly in relation to Russian Federal Budget Law.

burden on the development of the Russian economy and society for the purpose of building a strong military, thereby suggesting the possibility that defense spending might be reined in. Additionally, in relation to the delay in implementation of the State Arms Program, Putin warned that delivery dates must be strictly adhered to in principle, but that when truly necessary the government would be willing to accept revised deadlines, and he also hinted that the target dates under the program might be pushed back in the event of changed circumstances. Putin further pointed out that 70 percent of total defense spending is allocated to military operational and maintenance costs (a category that includes payroll costs), whereas only 30 percent was allocated to the costs of building military strength over the long term, including development of weapons and other materiel, and said that this was an issue that must be addressed. He stressed the necessity of revising the budgetary allocation process to provide sufficient funding for the modernization of the Russian military from a long-term perspective.

At a meeting on national defense procurement in June 2013, Putin pointed to a worldwide trend toward the increased effectiveness of precision-guided conventional weapons, to the point where the striking power of such weapons was approaching the level of strategic nuclear weapons. He said that he saw it as a

Figure 6.7. Breakdown of defense spending



Source: Compiled from Federal Budget Law

problem that many countries were making progress in the development of medium-range ballistic missiles, and emphasized the need for Russia to focus on developing aero-space defense systems as part of its military equipment procurement program. Regarding equipment for naval use, at the Security Council meeting in July, Putin pointed to delays in the naval equipment procurement program, and cited as one cause of this the inadequate manufacturing capabilities of national defense companies, including their subcontractors. He also admitted that the government was partly at fault for issuing orders for defense equipment without a sufficient understanding of the capabilities of the actual manufacturing facilities concerned, and urged the necessity of crafting policies that would create manufacturing capabilities in line with the budget allocations.

On that occasion, Putin suggested that the procurement of military equipment scheduled for delivery by 2015 might have to be delayed and incorporated into the State Armament Program for 2016 to 2025. He also suggested the possibility of adjusting the new equipment acquisition program and the program for construction of infrastructure, in view of the need to provide adequate coastal infrastructure to enable warships to perform effectively.

At the end of November, the Putin administration held the first in a series of meetings of defense ministry officials, representatives of companies in the defense industry, researchers, and other concerned parties to evaluate the situation with regard to carrying out state defense procurement orders. At this meeting, Putin pointed to a lack of uniformity among the various branches of the armed forces with respect to their possession of the desired military capabilities, and criticized the inefficiency of equipment procurement operations. He also called for clarification of responsibilities with respect to the implementation of equipment procurement plans, and issued other orders, including for the holding of coordination meetings between top-level officials of the different armed services. Then, at an expanded meeting of the Defense Ministry Board in December, Putin stressed the necessity of following a policy of efficiently equipping the armed forces with up-to-date equipment.

In these ways, the Putin administration is responding to its budget constraints by cutting back on defense spending, and while it is examining the idea of putting off plans for equipment procurement to a later date as a means of reducing expenses here and now, it is also debating the need to adapt Russia's armed forces to global trends in military technology, and to rethink its plans to realize greater

effectiveness in light of the actual capabilities of defense industry enterprises. The administration is believed to be aggressively seizing the opportunity offered by the present budget constraints to facilitate the efficient modernization of the armed forces.

(3) Russia Seeks to Strengthen Defense Industry and Boost Arms Exports

For many years following the fall of the Soviet Union, the value of arms delivered within Russia was very much smaller than that of arms exports, but it began to increase strongly from 2008, and has now surpassed the value of exports. The *Yury Dolgoruky*, the first of the Project 955 (*Borei*-class) nuclear-powered ballistic missile submarines, the development of which was delayed for nearly ten years, entered service with the Northern Fleet in January 2013, and the *Alexander Nevsky*—second of these vessels—was deployed with the Pacific Fleet in December. In addition to delays in the hull construction work, the completion of the submarines was also delayed by repeated test firing failures of the Bulava ballistic missiles with which the vessels were due to be equipped. The *Alexander Nevsky* was the first new vessel to be deployed with the Pacific Fleet since the Soviet era. It has also been reported that in 2014 the fleet is scheduled to take delivery of its first *Mistral*-class assault ship, the *Vladivostok*, which was built in France. Since signing a contract with India in 2004 for the delivery of a modified aircraft carrier, refitting, and upgrading of the INS *Vikramaditya* (formerly the *Admiral Gorshkov*) was finally completed after many delays and cost overruns, and was handed over to the Indian Navy in November 2013.

By developing Russia's domestic defense industry, the government aims to simultaneously provide the armed forces with up-to-date equipment and stimulate the economy as a whole. It is therefore putting efforts into both military procurement in the domestic market and arms exports. The PAK FA (T-50) fifth-generation jet fighter is currently undergoing test flights, and is expected to be deployed starting in 2016. Russia and India are jointly pursuing the Fifth-Generation Fighter Aircraft Programme (FGFA), which is based on this aircraft. The export of weapons remains an important source of revenue for the Russian defense industry, and according to President Putin, the value of Russian exports of conventional weapons continues to grow, having reached US\$15.2 billion in 2012. The majority of this comes from continuing sales of Sukhoi Su-30MKI

fighters to India and the aforementioned joint development of the FGFA, as well as the export of important components to China and weapons to Vietnam, Algeria, Venezuela, and a number of other countries. Recent regime changes in North Africa and the Middle East have put an end to revenues from certain countries, such as Libya, but a large number of governments

continue to purchase Russian weapons, which boast good cost effectiveness and come without any political strings attached. The value of Russian arms exports is growing thanks to successful efforts to multiply the number of marketing channels.

Regarding the large-scale exports to China, including Su-35 fighter aircraft, which has been the focus of attention, despite the fact that the two countries have reached agreement on a basic arms export framework, it seems that negotiations over the details are facing heavy going. Following a meeting of the Russo-Chinese Military Technology Cooperation Committee held in Beijing in November 2012, it was reported by the Russian side that agreement had been reached on the procurement by China of twenty-four Su-35 fighters and four *Lada*-class submarines (Amur-1650 for export), but neither government has made an official announcement on this agreement. The manufacturer, Sukhoi, looks forward to recovering its investment in development of the Su-35 through the sale of large numbers of the aircraft to China, and the Russian government is thought to be planning these exports, as long as certain conditions are met. The Chinese side, on the other hand, appears to intend to buy only a small number of these planes, and to have the airframe and engines studied by their experts with the aim of producing similar aircraft themselves. According to *Kanwa Defense Review*, a Chinese-language specialist military affairs magazine, the Chinese are particularly interested in the 117S engine used in the Su-35, as well as its avionics systems, and hope to study them with a view to utilizing the results to improve their own aircraft production.

Meanwhile, according to Vasily Kashin, senior research fellow at the Center for Analysis of Strategies and Technologies (CAST), while the Chinese have already

Table 6.2. Principal Russian arms export developments in 2013

| Buyer Country | Weapons and Equipment Exported, and Talks Held |
|---------------|---|
| India | Delivery of refitted aircraft carrier INS <i>Vikramaditya</i> Delivery of frigate INS <i>Trikand</i> Upgrading work on MiG-29UPG fighters (at a cost of US\$900 million) and contract for maintenance facilities |
| China | Delivery of used ten IL-76MD transport planes and thirty-two Mi-171E helicopters Framework agreement reached on Su-35 fighters Framework agreement reached on <i>Lada</i> -class submarines, fitted with air-independent propulsion (AIP) |
| Vietnam | Delivery of one Project 636 (improved <i>Kilo</i> -class) submarine (contract for six submarines in all worth US\$2 billion), and agreement on cooperation in training Contract for production of equipment under license being considered |
| USA | Delivery of twelve Mi-17 helicopters for use by the Afghan military |
| Brazil | Delivery of nine Mi-35 helicopters (full contract for twelve at cost of US\$150 million) Talks held on contract for Pantsir air defense system Tentative talks held on sale of Su-35 fighters and joint production of fifth-generation fighters |
| Iraq | Start of delivery of Mi-28NE helicopters (contract calls for ten helicopters at cost of US\$4.3 billion) |
| Egypt | Defense Minister Shoigu expresses intention to export weapons to Egypt |

Source: Compiled from various news reports.

performed such replication production in the case of the Su-27, doing the same with the Su-35 or its components would be rather difficult. He expressed the opinion that Russia would go ahead with the exports assuming China agreed to its conditions. In fact, unlike the situation in the early 2000s, China is not purchasing a large number of complete aircraft from Russia, but continues to buy important components such as AL-31F series engines, which are used in the principal fourth-generation jet fighters, mainly the J-10 and the Su-27. This implies that the WS-10 series engine developed by China does not have the capabilities adequate for use in this type of aircraft. Additionally, while it is possible that Ukraine has worked with Soviet-era technicians to duplicate the Su-27, which has a history of operations in the Soviet era, in the case of the Su-35—which was developed after the fall of the Soviet Union—no such similar conditions exist. In view of these facts, it seems that Russia would not run much risk of suffering damage to its intellectual assets by exporting Su-35s.

In either case, reaching final agreement on prices, component features and performance, production conditions, number of planes to be purchased, and so on will require quite some time. It is believed that Sukhoi will not be able to commence production of these planes for export to China until it has completed the currently ongoing production of planes ordered by the Russian military. Even so, the Russians are expected to continue promoting the export to China of Il-476 transport aircraft and S-400 air-defense missile systems, among other military equipment.

The Russians are expected to continue their efforts to export arms to a large number of countries, including China, but as labor costs in Russia and technological expertise in China are forecast to rise in parallel, the wider environment surrounding Russian arms exports is likely to become very difficult over the longer term. To maintain the large value of Russia's arms exports into the future, its military technology will have to improve, and for this purpose, the government is currently investing greater effort in the development of such technology.