

## **Sino-Japanese Competition over the Russian Far East: Is the Oil Pipeline Only a Starting Point?**

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Limitations of past studies demonstrate that we need a broad approach to the Russian Far East, distant from Moscow and located amidst five foreign states that have ideas about how to shape its future. This approach may concentrate on two states, China and Japan, most capable of long-term influence in the area. So far, analysis of Russia's Far East in the context of foreign relations has focused on local rivalries with Moscow over ties to the outside world,<sup>1</sup> strategies in the capital for limited integration into Northeast Asia,<sup>2</sup> and difficulties in cross-border relations.<sup>3</sup> Missing is a wide-ranging outlook that views

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- 1 Gilbert Rozman, "The Crisis of the Russian Far East: Who Is to Blame?" *Problems of Post-Communism*, Vol. 44, No. 5, September/October 1997, pp. 3-12; Gilbert Rozman, "Troubled Choices for the Russian Far East: Decentralization, Open Regionalism, and Internationalism," *The Journal of East Asian Affairs*, Vol. 11, No. 2, Summer/Fall 1997, pp. 537-569; Michael J. Bradshaw, ed., *The Russian Far East and Pacific Asia: Unfulfilled Potential* (Richmond, Surrey: Curzon Press, 2001); M. Titarenko, "Sibir' i Dal'nii Vostok kak strategicheskaiia baza integratsii Rossii v ATR," *Problemy Dal'nego Vostoka*, No. 6, 2002, pp. 98-105; *The Russian Far East Today: Regional Transformations under Globalization* (Sapporo: Slavic Research Center, Hokkaido University, Occasional Papers No. 1, 2003).
  - 2 Gilbert Rozman, et al., *Russia and East Asia: The 21st Century Security Environment* (Armonk, NY: M.E. Sharpe, 1999); Gennady Chufirin, ed., *Russia and Asia-Pacific Security* (Tokyo: Sipri, 1999); Judith Thornton and Charles E. Ziegler, eds., *Russia's Far East: A Region at Risk* (Seattle: The National Bureau of Asian Research, 2002); Gilbert Rozman, "Russian Foreign Policy in Northeast Asia," in Sam Kim, ed., *The International Relations of Northeast Asia* (Lanham, MD: Rowman & Littlefield, 2004), pp. 201-224.
  - 3 Gilbert Rozman, "Turning Fortresses into Free Trade Zones," in Sherman Garnett,

the policies of actors in Russia through the lens of a leadership struggle in the emerging Northeast Asia region.<sup>4</sup> As great power relations kept changing in Northeast Asia after the cold war, forces in Russia at first remained aloof, fearing that any form of regionalism would be harmful. As competition between China and Japan heated up, however, Vladimir Putin began to play an active role in steering regionalism, looking for a path favorable to the Russian Far East as well as to Russia's overall influence. A struggle for advantage in the Korean nuclear crisis looms in the background, and a tug-of-war over an oil pipeline from Angarsk to either Daqing (An-Da) or Nakhodka (An-Na) signaled the start of more intense rivalry. The Nakhodka route won in a late 2004 decision.

When Northeast Asia began to take shape as an economically integrated region, both Japan and China started looking to the Russian Far East to bolster their strategies for leadership. After Taiwan and North Korea, the Russian Far East offers the greatest opportunity for redefining the lines of power in a region still in flux. While attention has centered on territorial disputes between Japan and Russia and China and Russia involving just a few small islands, the vast expanse of the Russian Far East is a much more alluring target, albeit for influence rather than sovereignty. In the face of strong magnetic forces from nearby countries Moscow tries to steer a narrow line between integrating this distant area into a dynamic, emerging region and retaining a tight grip on it. Increasingly, this has meant weighing the potential of China and Japan for serving Russian interests, while keeping an eye on the evolution of the two Koreas on a divided

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ed., *Rapprochement or Rivalry? Russia-China Relations in a Changing Asia* (Washington, D.C.: Carnegie Endowment for International Peace, 2000), pp. 177-202; Gilbert Rozman, "Cross-Border Relations and Russo-Japanese Bilateral Ties in the 1990s," in Gilbert Rozman, ed., *Japan and Russia, The Tortuous Path to Normalization 1949-1999* (New York: St. Martin's Press, 2000), pp. 199-214; and Iwashita Akihiro, *Churo kokkyo 4,000 kiro* (Tokyo: Kadokawa Shoten, 2003).

- 4 I have covered competing strategies over regionalism through six periods after the cold war in Gilbert Rozman, *Northeast Asia's Stunted Regionalism: Bilateral Distrust in the Shadow of Globalization* (Cambridge: Cambridge University Press, 2004). In 2004 there are signs of a seventh period beginning in which direct, intense competition between China and Japan takes center stage.

peninsula.<sup>5</sup> At last Moscow seems to be settling on an Eastern strategy, as Beijing and Tokyo grow more serious in their offers to it.

Beijing and Tokyo made different calculations in approaching central and local power in Russia.<sup>6</sup> Beijing set past issues aside as it kept wooing Moscow over 15 years, while it favored maximum openness across the border. Tokyo was hesitant because of the territorial dispute and was wary about cross-border ties. Despite these differences, in the early 1990s both fared badly in their efforts to capitalize on early decentralization in the Russian Far East. The former promoted “border fever” through a rush of shuttle traders and plans for joint corridors to the sea such as the Tumen River area delta project, while the latter gave priority to humanitarian aid and promises of sub-regional integration into the “Sea of Japan economic rim.”<sup>7</sup> Later in the decade they each focused on Moscow, although Heilongjiang province kept searching to build economic partnerships with Primorskii krai and Japan allocated a fund controlled by LDP parliamentarian Suzuki Muneo of Hokkaido that brought some assistance to the disputed islands under Sakhalin oblast. In contrast to optimism at times about bilateral relations, cross-border ties were troubled. Despite some gains in Sino-Russian trade from 2000 and growing output from multinational investments in Sakhalin oil and gas, neither country took satisfaction from its limited ties to the Russian Far East. As each weighed a new strategy, the two found themselves in growing competition.

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5 Gilbert Rozman, “The Geopolitics of the North Korean Nuclear Crisis,” in Richard J. Ellings and Aaron L. Friedberg, eds., *Strategic Asia 2003-04: Fragility and Crisis* (Seattle: The National Bureau of Asian Research, 2003), pp. 245-261; Taehwan Kwak and Seungho Joo, eds., *The Korean Peace Process and the Four Powers* (Aldershot: Ashgate, 2003).

6 Gilbert Rozman, “China, Japan, and the Post-Soviet Upheaval: Global Opportunities and Regional Risks,” in Karen Dawisha, ed., *The International Dimension of Post-Communist Transitions in Russia and the New States of Eurasia* (Armonk, NY: M.E. Sharpe, 1997), pp. 147-176.

7 Gilbert Rozman, “Backdoor Japan: The Search for a Way Out via Regionalism and Decentralization,” *Journal of Japanese Studies*, Vol. 25, No. 1, Winter 1999, pp. 3-31; Gilbert Rozman, “Northeast China: Waiting for Regionalism,” *Problems of Post-Communism*, Vol. 45, No. 4, July-August 1998, pp. 3-13.

To explore the rivalry over the Russian Far East, this paper chooses three angles of vision. First, it considers the China-Japan-US triangle in Northeast Asia in order to disentangle the Sino-Japanese relationship from a global framework, and to show how the overall regional strategies of China and Japan include the Russian Far East. Second, it assesses broader reasoning in Moscow concerning the balance of power between China and Japan, including the Russian calculus over the pipeline issue. Finally, the paper looks to a geographical realignment inside Russia and its impact on regionalism balanced among Moscow, Beijing, and Tokyo. It considers the critical constituencies in Russia – Khabarovskii krai, Primorskii krai, Sakhalinskaia oblast, and Amurskaia oblast –, avoiding the tendency to see them as passive objects even though governors who shape the outcome by lobbying Moscow and dealing across international borders now face new controls.<sup>8</sup> A few national leaders have been making crucial decisions. It is they – George W. Bush, Kim Jong-il, Koizumi Junichiro, and Vladimir Putin – who seized the initiative, along with new leaders in China and South Korea over the period 2002-2004. As Bush and Kim stayed in a standoff, there was talk of Hu Jintao’s “peaceful rise,” Koizumi’s “active diplomacy,” and Putin’s “centralization.”

### **The US and Sino-Japanese Competition in Northeast Asia**

Each of the major actors in Northeast Asia faced at least one bout of concern over being outmaneuvered or even isolated. For Japan the low point may have come in 2000 when many felt bypassed by South Korea’s sunshine policy, which engaged each of the other three powers, or in 2001 when Koizumi started in office amidst simultaneous downturns in bilateral perceptions with Russia, South Korea, and China. Strengthening ties with the US in response to a beckoning Bush administration gave a firmer basis for joint efforts to reshape the Asian mainland. In China there was enough concern about Bush containment

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8 Iwashita Akihiro, “The Influence of Local Russian Initiatives on Relations with China: Border Demarcation and Regional Partnership,” *Acta Slavica Iaponica*, Vol. 19 (2002), pp. 1-18.

efforts, even after signs of reconciliation following the 9/11 attack, that a new strategy called “peaceful rising” was adopted in 2003. (Although the term lost favor when Jiang Zemin exerted pressure in 2004, Hu’s victory in September made it clear that he was setting the agenda again.) This includes appealing to Russia as a partner that can count on Chinese benevolence. Russians earlier had been alarmed about becoming irrelevant in the region; after establishing a strategic partnership with China in 1996 and repairing relations with North Korea there were still doubts that Russia’s weak economy would leave it dependent on China.<sup>9</sup> It is looking for balance. Americans inclined to the Bush administration also had felt some alarm in the late 1990s and at the time of the sunshine policy, fearing that US power was receding in the region. With these worries, countries are well attuned to the need for expanding their influence, and the Russian Far East offers one possible venue for the others and a challenge for Moscow.

For US interests there are at least four goals at stake in the Russian Far East. One, the area which had been a militarized security threat must not resume that role, either through a shift in Russian priorities or through Sino-Russian military ties expanding beyond a measured level of arms sales. Although this concern remained slight from 1992, it favors a tilt toward Japan. Two, the US does not want any other country to gain substantial control over this part of Russia, and the prospect of China doing so, however resisted by Russians, looms far larger than that of Japan. Three, the US regards Russian energy, especially oil, to be a strategic resource, and seeks maximum access to it and input into its allocation. As American companies cooperated with Japanese ones and others in the development of Sakhalin oil and gas, there is no doubt of continued preference for such multinational efforts. Four, Washington is concerned that regionalism under any other state’s leadership, but particularly China’s influence, could run afoul of US interests under the broad rubric of globalization. All of these reasons favor Japan.<sup>10</sup> Although narrow reasoning about US

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9 Vladimir F. Li, *Rossiiia i Koreia v geopolitike evraziiskogo Vostoka* (Moscow: Nauchnaia kniga, 2000); Iurii V. Vanin, ed., *Koreia na rubezhe vekov* (Moscow: Institut Vostokovedeniia RAN, 2002).

10 Condoleeza Rice, “Promoting the National Interest,” and Robert B. Zoellick, “A Republican Foreign Policy,” *Foreign Affairs*, January/February 2000, pp. 45-62,

global control at times appears to preclude acceptance of regionalism, those who appreciate the limits of US power recognize that some sort of regional grouping is inevitable and turn to Japan and its ties to Russia to begin to shape it.

US administrations have generally sought to bolster Japan's role on the Asian mainland, long favoring closer Japanese ties with South Korea,<sup>11</sup> after the cold war welcoming a breakthrough in ties between Tokyo and Moscow,<sup>12</sup> and increasingly seeking Japan's more active presence as a way to channel China's rapid rise as a regional power.<sup>13</sup> If during Bill Clinton's two terms, especially in 1994-1998, Japanese feared that the US was dealing with China, Russia, and North Korea without enough coordination, the ensuing Bush administration left no doubt that Japan would serve as its gateway to the region. It felt confident that on Taiwan there was a meeting of the minds and on North Korea, at least between Japanese Prime Minister Koizumi Junichiro's visits to Pyongyang in September 2002 and May 2004, no one else came closer to Bush's thinking.<sup>14</sup> Agreement over finding a way for the Russian Far East to withstand China's influence also brought Washington and Tokyo together. After Putin drew closer to Bush in the fall of 2001, the goal of overcoming the divide between Japan and Russia, by working with Putin and Koizumi together, may have risen in significance, even if closer Sino-US cooperation diminished the obsession with containing China.

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- 11 Gilbert Rozman, "Japan and South Korea: Should the U.S. Be Worried about Their New Spat in 2001?" *Pacific Review*, Vol. 15, No. 1, 2002, pp. 1-28; Victor D. Cha, *Alignment Despite Antagonism: The US-Korea-Japan Security Triangle* (Stanford, CA: Stanford University Press, 1999).
- 12 Gilbert Rozman, "A Chance for a Breakthrough in Russo-Japanese Relations: Will the Logic of Great Power Relations Prevail?" *Pacific Review*, Vol. 15, No. 3, 2002, pp. 325-357.
- 13 Gilbert Rozman, "Japan's Images of China in the 1990s: Are They Ready for China's 'Smile Diplomacy' or Bush's 'Strong Diplomacy?'" *Japanese Journal of Political Science*, Vol. 2, Part 1, May 2001, pp. 97-125.
- 14 Michael H. Armacost and Kenneth B. Pyle, "Japan and the Unification of Korea: Challenges for U.S. Policy Coordination," in Nicholas Eberstadt and Richard J. Ellings, eds., *Korea's Future and the Great Powers* (Seattle: University of Washington Press, 2001), pp. 125-163.

China, the US, and Japan agree on the need for peace and stability on Russia's borders as elsewhere in the region and economic reform and openness in support of external ties. If for a time Japan might not have minded economic difficulties in parts of the Russian Far East that could have boosted incentives to deal on the four disputed islands, it later saw a more prosperous Russian local economy as positive. While China might have welcomed more economic urgency in this part of Russia to rely on Chinese goods and open the door to laborers and entrepreneurs from China, it too came to appreciate a stronger Russian Far East economy in order to reduce fear of Chinese domination. Both neighbors sought to promote cross-border ties to assist their economically troubled peripheries, Northeast China and Hokkaido. Common interests favor reform and stability in a vast frontier that could provide an impetus for new regional dynamism. Yet, clashing strategies tied to questions of security and, more deeply, to national identities and entitlements proved increasingly divisive in the late 1990s and the beginning of the twenty-first century. Intense debates in China on "new thinking" toward Japan failed to set a new course that met China's objectives.<sup>15</sup> Efforts to reduce Japanese concerns over China's strategic and economic threat could not overcome the rising tide of warnings.<sup>16</sup>

Japanese are growing concerned that China is seeking predominance and would relegate their country to a secondary status as a political power as well as a military power.<sup>17</sup> Chinese in 2001-2003 tried to appeal to Japan not to develop a containment strategy linked to that of the US, and, after that made little headway, in 2004 vented warnings that rising nationalism coupled with talk of a China threat means that Japan is bent on blocking China's rise.<sup>18</sup> In this distrustful context competition over the Russian Far East intensified. US refusal to entice North Korea with a clear compromise left the momentum for

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15 Wang Yong, "Yi diqu hezuo huajie Zhongri jiegouxing maodun," *Zhanlue yu guanli*, No. 1, 2004, pp. 41-48.

16 Mori Kazuko and Zhang Yunling, eds., *Nitchu kankei o do kochiku suruka?* (Tokyo: Iwanami Shoten, 2004).

17 Torii Tami, "*Hannichi*" *de ikinobiru Chugoku* (Tokyo: Soshisa, 2004).

18 Feng Zhaokui, "Dui ri guanxi de jiannan qiusuo," *Shijie jingji yu zhengzhi*, May 2004, pp. 26-31.

cooperation stalled, adding to a competitive atmosphere. As American power was exposed as overextended in 2004, the Sino-Japanese competition was unmistakably rising to the fore.

In the first half of 2004 China's strategy in the region grew more intensely opposed to US and Japanese power. In place of an even-handed role as mediator in the nuclear crisis, Chinese insisted that North Korea was now flexible while the US refused to negotiate seriously. Chinese spoke of willingness quickly to reach a compromise deal on the three remaining islands in the dispute with Russia and of generous support for trade ties with Russia that can give a boost to the Russian Far East. When Putin visited in October, the two sides announced that they had settled the territorial issue and some new economic plans; yet to China's apparent distress energy plans did not favor it. Reconsidering the "new thinking" of 2003 that was meant to entice Japan into closer relations, Chinese assailed Japanese nationalism and foreign policy with new vigor. They were especially concerned about Japan's growing security role in the region, encouraged by the US. It was assumed that geopolitical objectives would draw Russia close if China was careful to assuage doubts, while they were driving Japan apart and leaving China little recourse but to toughen its posture. A more secure Hu met in the fall with LDP figures Kato Koichi and Kono Yohei in a renewed search for a way to jumpstart bilateral relations, but there were no easy answers, as both sides awaited the US elections.<sup>19</sup> After Bush won reelection, the wait would continue as his foreign policy team was changing and handling of the North Korea issue, the Taiwan issue, and regionalism in general could drive other adjustments in dealing with Northeast Asia.

In 2004 Japanese strategy in the region remained focused on the rise of China as well as the volatility of the North Korean nuclear crisis. Early in the year the issue of family members left behind when abductees were allowed to visit Japan in the fall of 2002 seemed to block out other concerns as Japanese policy toward North Korea stayed close to that of the US. After Koizumi took a one-day trip to Pyongyang on May 22 and returned with five family members, however, a new vigor seemed possible, as Japanese spoke of supplying

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19 *Asahi Shimbun*, October 23, 2004, p. 2.

energy in return for a freeze on nuclear weapons development. Instead of Beijing monopolizing the role of intermediary with Pyongyang in the six-party talks, Tokyo had begun to cultivate its own channels of diplomacy and potential to broker an agreement. Soon, however, hope faded. Tokyo again had to wait for others to act. If North Korea was the central regional concern, the Russian Far East continued also to be a source of division and long-term calculations.

Both Beijing and Tokyo are looking beyond US predominance in Northeast Asia. Beijing is limited by its impatience to regain Taiwan and refusal to accept Japan as a political great power on a par with itself, thus limiting its interest in resolving basic security questions and approaching Russia with economics in the forefront. Tokyo has been even more constricted by its focus on historical issues, delaying a geopolitical understanding with Moscow. Each side has hesitated, but pressure is mounting to make a breakthrough in Russia.

### **Moscow's Stance on the Pipeline and the Sino-Japanese Rivalry**

From the time of the collapse of the Soviet Union intense battles occurred over what direction Russian political and economic development should take. Policies in the Russian Far East and toward the countries of Northeast Asia often were criticized as failing to serve national interests well, and many called for sharp adjustments. Leaders and public opinion in the Russian Far East, especially the critical krai of Primorskii and Khabarovskii, tilted to Japan. In Moscow many doubts were also raised about China's rising power and its potential impact on the Russian Far East; yet reservations remained about Japan's willingness to advance relations without a breakthrough on the territorial issue and Japan's excessively close ties to the US. Despite a spike in warm words to Tokyo in 1997-1998 and 2000-2001, Moscow leaned to Beijing.

Ever since 1989 there were signs that leaders in Moscow would welcome a chance to balance relations with Beijing by reaching an accord with Tokyo and even creating a special relationship. While they did not contemplate the transfer of the four islands, they did welcome any initiatives from Tokyo that suggested the prospect of improved ties. In addition to global and regional objectives, Moscow generally

avored a greater Japanese presence in the Russian Far East. In the second half of 2002 when Japan's latest initiative turned to the An-Na oil pipeline, this rekindled Russian hopes for a broader improvement in relations. As at several points in the previous 15 years, some in Moscow grew hopeful that the territorial issue would become a lower priority for Tokyo.

Dmitrii Trenin is one Russian analyst who contends that in 10-15 years it will become clear that Russia's main geopolitical problem of the twenty-first century is the future of Siberia and the Far East. He argues that at the heart of this area's instability is the failure of the traditional mobilizational model of development and the delay in achieving new development based on private, mainly foreign capital, which leaves the area vulnerable to China. Trenin observes that Washington is interested in Russia preserving its Far East, creating a strong foundation for partnership. Warning that Beijing's strategy is to gain access to energy and military technology as well as a destination for China's surplus population, Trenin implies that Japan is a more promising partner even as Russia strengthens friendship and maintains controlled use of Chinese resources for the development of Siberia and the Far East.<sup>20</sup> This argument resonates well in Moscow, calling for Russia to balance against China in the region, but many remain doubtful that Tokyo has the will to proceed.

In 2003-2004 Putin continued to struggle to identify and establish his own agenda as economic interests battled and regional objectives were finally being clarified. New decisions proved largely unfavorable to China. In place of Yukos using business logic to plan a private oil pipeline to Daqing that would primarily be built by the Chinese through their territory, ministerial interests and Transsibneft favored a state pipeline completely across Russian territory that would terminate at the sea and favor Japan as well as diversified markets. Rather than bilateral deals that left an overextended Russia at risk before a newly assertive China, strategic reasoning opted for an expansive Northeast Asia where Chinese interests would be kept in check. Especially the joint efforts of regional elites across the southern tier of Asiatic Russia,

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20 Dmitrii Trenin, "Aziatskii vector v strategii Moskvy," *Nezavisimaia gazeta*, No. 15, October 27, 2003, pp. 13-14.

who anticipated a large dose of investment and bountiful energy that could be used for local industries and consumers as well as less dependence on China, created a vocal lobby for An-Na. Strategic thinking about the “East” gave Japan priority, but it favored as well stable ties with China as a partner in arms sales and security matters.

Perhaps the biggest change for the region under Putin was a pragmatic approach to the US, dramatized by the response to 9/11 and further evidenced by talks on cooperation on energy. While Yeltsin may have quietly encouraged the US to remain engaged in Northeast Asia, Putin curtailed the rhetoric of Sino-Russian partnership and made clear that Russia could work closely with the US. In 2003-2004 the limits of this global reconciliation were exposed, but the lessons for Japan’s interest in improving relations with Russia endured. Left uncertain was how strongly Japan would link its insistence on the return of all four islands to a breakthrough in relations. After Putin won reelection in March, the debate inside Japan intensified over how actively to insist on linkage as talks on energy cooperation advanced. Meanwhile, the trial of Mikhail Khodorkovskii in Moscow and signs that foreign investors in Sakhalin-3 oil and gas may be stripped of their assets after a decade of exploration and infrastructure development left many wondering if Moscow was soiling the prospects for a large-scale energy project. As global oil prices reached record levels, however, there was no shortage of suitors for Sakhalin resources.

If Russia wanted to dispose of all of its available oil at the shortest possible distance to a customer with a deep thirst for new imports of this vital energy source, the An-Da pipeline would serve well. Simple marketing concerns for energy would favor the Chinese route, although dependence on a single purchaser could limit Russian freedom to set prices. Yet, Russia chose in late 2004 to set aside the Chinese offer, which it had invited and eagerly pursued for a decade, in favor of an upstart offer from Japan, using Taishet, not Angarsk, as the starting point. Many in China saw the Japanese offer less as an effort to enhance energy security than as a geopolitical maneuver that was also embraced by Russia for geopolitical reasons. The idea spread that Japan was embarking on a strategy to contain China matched by a Russian strategy to limit China’s leverage in the region and supported by the US geopolitical calculus. Chinese interest in a gas pipeline,

however, met with more support, and an offshoot oil line could later replace rail shipments if Japan vacillated. There was little to do but wait to see how serious Japan's energy offer to Russia would be.

While the geopolitical reasoning of Russia, Japan, and the US were not seen as fully overlapping, their interests in preserving a balance of power in Northeast Asia seemed to coincide. It was suspected that the US and, possibly, Japan aimed to keep China heavily dependent on oil controlled by multinational companies that had to traverse sea lanes that could readily be interrupted.<sup>21</sup> In short, the US would make use of a stranglehold over China's energy lifeline to ensure that it did not undercut US power, for example by launching an invasion of Taiwan. Whatever Russia may have thought about this objective, all three agreed that strengthening the Russian Far East's ties with Japan makes geopolitical sense. It would reduce dependence on China, solidifying Russo-Japanese relations while preventing a vacuum from emerging on the periphery.

China has tried self-policing to prevent troubles, reassurance to explain what China is doing, generosity to show its benevolence, and other methods to persuade Russians that they have nothing to fear from a long-term partnership in all dimensions. Yet, the fear of China in the Russian Far East remains palpable. China cannot put the territorial claims of the past to rest. Preoccupied with US power and the possibility of conflict over Taiwan, Beijing avoids quarrels with Russia. Year after year Chinese insist that relations are improving, but they never succeed in winning the confidence of Russians, especially in the Far East. Part of the problem is extreme conditions and even paranoia on the Russian side. Criminalization and coarse measures at border crossings interfere with progress for the Russian Far East. One cannot escape the impression that Chinese suffer more from them than Japanese.<sup>22</sup> Skinheads target Chinese in cities such as Moscow, and the media rails against Chinese behavior or imputed intentions.

Whereas Putin stands somewhat apart from Russian sentiment critical of the US, he is not known to oppose those who call for

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21 Wang Yajuan, "Jiu Zhonghe yuanyou guandao xiangmu wenti fang Lu Nanquan," *Shijie zhishi*, No. 20, 2003, pp. 44-46.

22 *Huanqiu shibao*, June 4, 2004, p. 6; *Utro Rossii*, October 18, 2003, p. 2.

preparing to balance China in Northeast Asia. Koizumi at times insists that Japan does not regard China as a threat, but he does little to rein in the emotional incitement against China coming from Japanese politicians. Some Japanese argue that Russia needs Japan because of its fear of China, and many Russians have concluded that it is Japan that pursues a bilateral partnership directed against China and needs Russia more. On the surface, this debate is about which side has greater reason to make concessions on the disputed islands. Since a deal on islands is likely to require compromise from both sides, this futile debate serves mainly to awaken both sides to a common interest. Russians would like to proceed on shared geopolitical objectives without addressing the territorial question, and Japanese pretend that they can regain the islands even as they are edging closer to an energy deal independent of them. Although it appears that Japan is now well placed to achieve a deal, the matter is complicated. First, failure to arrange a compromise that reaches beyond two islands would so contradict the nationalist rhetoric over many years that the public might deem the losses more than the gains. Second, Russia's commitment to foreign investment and rule of law may be so uncertain that Japan could fail to reap the expected benefits. Third, US policies may still drive Russia toward China or Chinese appeals for regionalism may still offer an arrangement that reduces the need for bilateral deals. Finally, uncertainty over North Korea's nuclear program delays any clarity over the shape of regional security. After Putin's reelection former Prime Minister Mori Yoshiro went to Moscow to redirect attention to the islands without any signs of success, as Russians remained confident that the oil pipeline was taking priority over the territorial demands.<sup>23</sup> Meanwhile, the Japanese government and media showed no signs of debating the merits of seeking a compromise on three islands or a two-stage approach with temporary arrangements for shared use of two islands.

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23 *Sankei Shimbun*, April 16, 2004, p. 7.

## **The Russian Far East and Territorial Reorganization**

In the first half of 2004 old stumbling blocks reappeared in the path of the new intensity for regionalism. A January decision to annul the 1993 tender results under a production sharing agreement for the development of the Sakhalin-3 oil and gas project led by the consortium of ExxonMobil and ChevronTexaco as well as Rosneft renewed doubts that the Russian side was serious about honoring investors' rights. Under these circumstances, of what use was talk of an energy partnership between the US and Russia that would set the framework for development of the Russian Far East? Putin's reelection for a second term as president with a strong mandate to govern led influential Japanese to reassert the priority of the territorial claims over energy and other forms of economic cooperation. When Vasili Saplin left Sapporo after five years as Russian consul general he warned that Japanese political circles, economic circles, and the public as a whole were misreading the situation with the prospect that again relations would hit an impasse.<sup>24</sup> At the same time, China's "new thinking" toward Japan and "best-ever relations" with the US were giving way to an assertive foreign policy obsessed with delivering a message over Taiwan and no longer as cooperative in dealing with the North Korean nuclear crisis. Meanwhile, Sino-Russian relations appeared to draw closer, defiant of US assertiveness.

In Moscow there is talk of consolidation of territorial units, reducing the number from 89 to fewer than half that number. The Russian Far East could emerge with as few as three or four units, one of which is rumored to be Sakhalin-Kamchatka as a maritime area. This would become the natural partner for Hokkaido in what might be called the North Pacific sub-region of the Northeast Asia region. Economic ties would rest on two cornerstones: Sakhalin oil and gas, and Sea of Okhotsk crabs and fish. Yet, serious problems persisted with commercial operations in both areas as seen in the fallout from the 2004 trial of Yukos' Mikhail Khodorkovskii as well as new questions about whether Russia will honor the ten-year old contracts of Sakhalin-3, and in the continued criminalized control over marine

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24 *Asahi Shimbun*, May 19, 2004, p. 12.

resources, as revealed again in 2003 with the murder in Pusan of Vasiliy Naumov who had exerted almost total control in this area in the late 1990s.<sup>25</sup> Japanese could not count on primacy over fishing. Most Primorskii krai exports to South Korea were fish, and plans for investments in marine culture were advancing.<sup>26</sup> More than China, South Korea was Japan's rival, including in the sensitive zone around the disputed islands. Even more than Japan, it had reason to be concerned about rampant export of crime from Russia, since as many as 70-80 Russian ships can be found in Pusan at any time, bringing thousands of sailors with passes.<sup>27</sup>

If the Russian Far East has been unable to capitalize on its most favorable export, marine products, due to criminal groups linked to local administrations as well as to foreign partners, it has had more success with its most promising import, used cars, despite persistent attempts in the central government to interfere. In parking lots of the area it is common for 90 percent of the vehicles to have steering wheels on the right. Prime Minister Viktor Chernomyrdin's ban on such vehicles, the August 1998 devaluation that made Russian vehicles much cheaper, punitive tariffs in 2003 and steps to remove a transportation surcharge of about \$500 in this region by equalizing the price of Zhiguli cars at all ends of the country were but some of the efforts that did not succeed in blocking the inflow from Japan. Local residents may accept one alternative: the assembly of South Korean automobiles in the Russian Far East, as agreed in mid-2003.<sup>28</sup>

The second administrative entity in a reorganized Far East would include Primorskii krai. Japan and China might compete most intensely here, but they would face an active role by South Korea and the spillover from any plan to integrate North Korea with the South and into a wider region. One battleground is the labor market of Primorskii krai. China had hoped to gain an edge, but found tight restrictions on its migrant laborers. North Korea raised its profile after 2000 by contracting to send construction, agricultural, and other workers. South

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25 *Vladivostok*, April 22, 2003, p. 4.

26 *Vladivostok*, October 15, 2003, p. 3.

27 *Vladivostok*, April 23, 2004, p. 3.

28 *Zolotoi rog*, July 24, 2003, p. 15.

Korea tried a different approach: hiring workers inside Russia and supporting the resettlement of Koreans from Central Asia. Its investments were said to serve 80 percent of the light industrial production of Primorskii krai, providing for as many as 9,700 jobs in textiles and packing, mostly for women in small towns who faced some of the most severe unemployment.<sup>29</sup> Yet, Russian workers often came drunk or skipped work in the summer to tend their garden plots, and Koreans managed to get the krai administration to agree to 900 Chinese workers in 2003 as they prepared plans for as many as 2,300 in 2004. New Russian customs procedures and American discoveries of false certification of Chinese products as “made in Russia” were threatening the textile business. Officials also complained that goods destined for export were finding their way into local markets, where their superior quality gave them an edge.<sup>30</sup> As new WTO rules took effect in 2005 Korean textile production was ceasing.

Meanwhile, Korean villages such as “Friendship” built by South Koreans with saunas and other amenities provoked mutual accusations; bribes did not suffice for local officials to grant the right of occupancy or permission for normal work to those who lacked Russian citizenship or even a status of “rehabilitated” to those whose families were repressed and driven from the area. Despite professional qualifications, recent Korean settlers worked alongside Chinese in the markets.<sup>31</sup>

Russians speak of Primorskii krai as the gateway to Asia, but it is a maritime region that diminishes a special bond with China. While China offered in 2003 \$1.5 billion to put into projects in the Russian Far East and leaders in Primorskii krai welcomed good ties that would be conducive to the use of those funds, such as processing wood products, they were reserved about other proposals which Japan could easily match. A Chinese suggestion to support joint processing of fish was rejected by Governor Sergei Darkin, who argued both that there are not enough quality fish for the local population and that Japan’s proposal was more appealing.<sup>32</sup> When the two sides agreed on a

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29 *Zolotoi rog*, November 25, 2003, p. 19.

30 *Zolotoi rog*, April 3, 2003, p. 15.

31 *Vladivostok*, March 20, 2003, p. 12.

32 *Komsomol’skaia pravda*, October 10, 2003, p. 40.

cross-border zone in 2004, Russians were confident that they retained enough controls to deny China its objectives for freer trade and transportation.

If ships provide the principal link in the eastern sub-region, railroad ties offer an important addition in the coastal sub-region. Local leaders in the Russian Far East, backed by Putin, rest their hopes on Kim Jong-il to reconstruct the Trans-Korean railroad and they have already started to link it to the Trans-Siberian south of Vladivostok.<sup>33</sup> Japan could assist with transportation routes that solidify Russia's regional presence as well as shape the integration of Korea.

If a third administrative entity is established in the Russian Far East, it is likely to include Amurskaia oblast and other areas to the north and northeast. Russian officials will be keen on keeping Chinese influence from predominating. Already the lumber resources of the area are allotted to North Koreans working in a large lumber camp, which no longer has the trappings of a prison since a 1997 agreement, as well as to Chinese.<sup>34</sup> Since lumber ranks next to energy and marine products as the Far East's export of choice and China is the largest potential market, Russians face the challenge of arranging economic ties to serve political objectives. Inside South Korea, Russian workers find work (about 4,400 of 14,000 Russians recorded in the South are illegal workers) assembling furniture, much of which is sold in Russia. Some complain that the wood should be processed in Russia and the profits kept there.<sup>35</sup> The main wooded areas are in this inland area of Northeast Asia, where population densities are low, lines of transportation from north to south difficult, and China's geographical edge hard to convert into a force for reshaping the Northeast Asia region.

Construction of an electrical generating station of 340 megawatts with a line crossing the Amur River from Blagoveshchensk is the centerpiece of an integrated electricity grid for Northeast Asia that was discussed in the spring of 2003. Resolution of the North Korean nuclear crisis could make possible another, even larger, station carrying

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33 *Zolotoi rog*, July 22, 2003, p. 5.

34 *Vladivostok*, June 5, 2003, p. 4.

35 *Vladivostok*, January 31, 2003, p. 10.

500 megawatts from the Vladivostok area to North Korea.<sup>36</sup> One report suggested that with an expense of \$2 billion an electrical ring from Angarsk to the Pacific Ocean and reaching south through Northeast Asia could yield benefits of no less than \$14 billion.<sup>37</sup> Chinese were also enthusiastic about energy cooperation with Russia as the breakthrough that could propel regional cooperation forward.<sup>38</sup> While their bilateral objectives contrasted with the multilateral rhetoric most visible in Russian sources, a new urgency arose from the priority given in 2003 to development of Northeast China, emphasizing reform of the dilapidated industrial complex in an international context. Amid new signs of tensions in relations with Japan, including an outcry over new casualties from chemical weapons left behind in Heilongjiang province during the war, and continued stalemate over North Korea, Russia continued to be appealing as a geopolitical partner. After 15 years of difficult economic ties along the border, however, hopes in China were not high. The unexpected news in 2003-2004 that the An-Na pipeline would likely receive priority left Chinese scrambling to find another way of putting a positive spin on the partnership with Russia.

Khabarovskii krai is the regional base of the Far East-Zabaikal association and of the presidential representative, Konstantin Pulikovskii. Its governor, Viktor Ishaev, has claims to leadership, as he jousts with Pulikovskii for authority. The city of Khabarovsk could become the center of the inland area extending through Amurskaia oblast or of a separate area through the vast north. Although it is on the Amur River which forms the border with China, fear of Chinese migration and economic domination inland where maritime powers are at a distance have led to Ishaev's tilt toward Japan. That psychology is likely to endure. Yet, Putin's newly centralized power, which could promote consolidation of administrative units and economic priorities could boost a regionalist approach less fearful of China.

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36 *Utro Rossii*, April 12, 2003, p. 1.

37 *Vladivostok*, April 15, 2003, p. 3.

38 Zhu Xianping, "Zhonghe nengyuan hezuo jidui Dongbeiya quyi jingji de yingxiang," *Dongbeiya luntan*, No. 2, 2004, pp. 31-34.

After reorganization of Russia's Far East into three or four administrative areas with different geographical circumstances and resource endowments, Japan will retain its advantage over China in regionalism for geopolitical and cultural reasons more than economic ones. US-Japanese cooperation would influence the maritime zone most, an accord on a process of Korean reunification would make it easier to balance China on the coastal corridor, and inland fears of Chinese dominance would favor Japan. Putin's reasoning on regionalism and the energy politics of Koizumi give Japan the edge in the Russian Far East as Hu Jintao, finally able to silence Jiang Zemin's strategic voice, scrambles to accelerate regionalism based on China's "peaceful rising." The decision to make quick concessions to Russia in order to settle the remaining territorial dispute and to show growing generosity in supporting Russian economic links are proof of pragmatism that may give China an edge in the Russian Far East. The ball is now in the Japanese court.

### **Conclusion**

Japan has won the battle over the pipeline route and is positioned to gain a balance with China in the Russian Far East, but three factors suggest this will be a protracted competition. First, because of the territorial dispute, Japan will not likely seize its advantage. The planned visit of Putin, if it occurs in early 2005, may reveal Japan's priorities. Second, without a development strategy for the Russian Far East or a commitment to tackle lawless elements, the pipeline project may become as much a burden as a blessing. Putin's assertion of central control in September 2004, eliminating the direct election of governors, could set a more stable course. Three, the absence of an overall framework of regionalism, including security on the Korean peninsula, may reflect short-term conditions that will be overtaken before long. With Sino-Japanese economic ties booming and the position of the US in Northeast Asia drifting toward multilateralism, emergent signs of sharpening competition may be overtaken by new developments.

While the regional context of Northeast Asia continues to change, the rise of China and Japan's search for balance in Asia are likely to

persist. Local elites in the Russian Far East can be expected to seek to minimize dependency on China even as they expand economic ties to it. In turn, national leaders are prone to view Japan as a welcome partner if current tensions are ameliorated. In these circumstances, China would be wise to downplay competition while stressing the shared benefits of regionalism. Cooperating with the US and embracing diverse globalization, Japan is well-positioned to shape regionalism if it regards that as its priority. Before that occurs, however, competition with China is likely to grow, and the Russian Far East is likely to become more significant as a battleground.