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Recent Japanese-Russian economic relations

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The seven years from 2013 to 2020 was a special or strange period in the history of Japanese-Russian relations. Under the Shinzo Abe administration, the Japanese government took active policies toward Russia to solve the so-called Northern Territorial Issue. No other governments in Japan have adopted such aggressive approaches to the USSR/Russia after WWII. It is, however, difficult to deny that these policies failed and to find anything positive left to the succeeding administrations.

There has been argument that if the Northern Territorial Issue is solved, Japanese-Russian economic relations will make rapid progress. Its contraposition is that if these bilateral economic relations do not develop rapidly, the territorial issue will not be solved. But I think that this proposition is a complete myth.

Let me consider the recent boom in these relations that took place in the period 2003-2008, when the volume of bilateral trade increased by 20-60% every year. In particular, Japan's exports to Russia expanded quite rapidly by automobile exports (annual increase rates were 40-90%). I would like to emphasize that this has nothing to do with the political relations between two countries. Because of considerable increases in household income in Russia fueled by soaring oil prices, Russia's imports of passenger cars increased from 71,200 units in 2000 to almost 2 million units in 2008. Japan accounted for 40% of these imports in 2008. The share of automobiles in Japan's exports to Russia was 76% in that year. Thanks to growing demand by Russia's households, Japan's foreign direct investment (FDI) in Russia's car industry increased significantly as well. Toyota began to produce its cars in 2007 in St. Petersburg, followed by Nissan in 2009, and by Mitsubishi in 2010.

However, due to stagnant economic growth since 2009, Russia's imports of passenger cars have never reached this level and decreased to 303,000 units in 2019. Accordingly, Japan's exports of passenger cars to Russia decreased, resulting in stagnation of Japan's total exports to Russia in the past decade.

The corresponding increase in Japan's imports from Russia was brought about by those of oil and liquefied natural gas (LNG). Japan's crude oil imports from Russia jumped from 0.6 million tons in 2002 to 5.5 million tons in 2007, and to 14.6 million tons in 2015. The share of Russia in Japan's imports of crude oil increased from 0.4% in 2002 to 8.5% in 2015. Accordingly, the share of Japan in Russia's exports of crude oil grew from 0.3% in 2002 to 6.0% in 2015. This was a result of the eastward shift of Russia's oil production. The majority of crude oil came to Japan from Sakhalin Island by tanker and from East Siberia through the East Siberia – Pacific Ocean (ESPO) pipeline, which was put into operation in 2009. Japan's oil imports from Russia, however, have decreased since 2016 down to 6.4 million tons in 2019. This was mainly explained by the decrease in imports from the ESPO pipeline, which was caused by the increase in China's imports from it.

With respect to LNG, Japan is the largest importer in the world. Japan's imports from Russia began in 2009, when an LNG plant in

Sakhalin, the first one for Russia, started operation. Russia already ranked fourth in Japan's LNG imports: its share was 8.3% in 2019. About two-thirds of LNG produced in Sakhalin were exported to Japan. It should be remembered that Japan was one of the few countries that invested in the development of oil and gas in Sakhalin from the 1990s and that a Japanese company joined the construction of the LNG plant in Sakhalin.

Thus, Japan's imports from Russia have been dominated by oil and gas imports, which share increased from 5.2% in 2002 to 46.8% in 2008, and to 76.2% in 2013. Those imports had grown until 2014 after a sharp drop in 2009 and have stagnated since 2015 due to the decline in oil prices. As a result, the share of oil and gas in Japan's imports from Russia dropped to 53.4% in 2019.

Overall, Japan ranked third in Russia's imports in 2008 and eighth in 2020. In terms of Russia's exports, Japan's ranking declined from sixth both in 2013 and 2014 to twelfth in 2020. As you see from the above explanation, these trends are basically explained by several economic, not political, factors. Therefore, I foresee that if oil prices go high causing the increase in purchasing power of Russia's households, Japan's exports to and imports from Russia will increase again. But this forecast assumes that the industrial structure of both Russia and Japan will not change significantly in the near future. In addition, I do not take into account the global decarbonization movement and its impacts on the oil and gas sector in Russia. ■



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