

After their respective returns to prominent power in early 2010s, both Prime Minister Abe Shinzo of Japan and President Vladimir Putin of Russia realized that the lack of a diplomatic breakthrough in Russo–Japanese relations put Russia and Japan at a disadvantage in great power maneuvering. In a major, ongoing study of Japanese investors' attitudes toward Russia conducted by the Japan External Trade Organization (JETRO), 74.2 percent of the companies identified the "unstable political and social climate" as the most pressing risk for their investment. In addition, 67.5 percent of respondents pointed to the complexity of administrative procedures, and 59.1 percent of respondents cited the complexity of the tax system. Japanese industry groups complain of numerous obstacles to investment in Russia, such as organized crime, corruption, lack of a coherent legal framework and transparent tax rules, and power struggles between the Maritime Provinces and Moscow. As a result, Japanese investments in Russia remain minuscule. In 2017, Japanese investment in Russia represented just 0.07 percent of total Japanese overseas investment. Unless Russia improves its business environment significantly, Japan is unlikely to improve its business ties with Russia. Russia's declining economic trend after the annexation of Crimea brought more worries to Japanese investors. First, the volatility of the ruble became a significant concern. In the JETRO survey, 78.5 percent of respondents identified "exchange rate volatility" as the most urgent risk for their investment in Russia. In addition, after the Fukushima nuclear disaster of 2011, Russia appeared as an ideal energy supplier to satisfy Japan's growing fossil fuel demands. Japanese companies remember the harsh punishment of Toshiba in 1987 over sales to the Soviet Union; they do not want to repeat it. Despite these challenges, there are new opportunities for increasing economic ties in the energy and agricultural sectors. Japan has increased its reliance on fossil fuel energy sources following the 2011 Fukushima nuclear meltdown, bringing new urgency to energy cooperation. As a result, Abe and Putin initiated efforts to improve Japan–Russia economic relations. Gazprom and Japanese companies signed a memorandum of understanding that approved Vladivostok LNG, the flagship project of the Putin–Abe era. The bad business environment in Russia and its economic decline after the annexation of Crimea are the two most pressing issues that are keeping the bilateral trade relations down. In addition, the Russian market became less attractive for investors in the manufacturing sector because of the shrinking economy and the decline in disposable income. Cooperation between the two states would satisfy Putin's advocacy for multilateralism and Abe's hope for a more independent and robust Asian policy. The failure to strengthen economic ties during the Abe–Putin era represents a general trend in the past 50 years. The ruble's shifting value is closely connected to the decline in oil prices, which in turn makes investing in energy projects less attractive. They worry about the possibility of oil and gas technologies being included in the U.S. sanctions list and fear that the U.S. Treasury Department might sanction Japanese companies over specific projects in Russia. However, the process has stagnated since 2013 because Gazprom devotes more attention and resource to projects with China. Japanese exports to Russia peaked in 2012 and took a sharp hit in the next two years because of sanctions against Russia following the annexation of Crimea. Japanese imports from Russia peaked in 2013 and 2014 and steadily declined to the current level, around half of the peak. Following the Abe–Putin summit in 2013, Japan increased its energy investments in the Russian Far East. On paper, Russia and Japan are ideal trade partners: Russia needs

Japanese investments and technologies while Japan needs Russian natural resources. Despite these mutual needs, Japan and Russia have consistently failed to boost bilateral trade. Japan–Russia trade enjoyed rapid growth following the 1998 financial crisis until the Ukraine crisis. Enjoying this article?