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*Nina Ershova*

**JAPANESE INVESTMENT IN  
RUSSIA: FAR EASTERN AND  
WESTERN RUSSIAN REGIONS  
COMPARED**

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## **JAPANESE INVESTMENT IN RUSSIA: FAR EASTERN AND WESTERN RUSSIAN REGIONS COMPARED**<sup>2</sup>

The investment relationship between Japan and Russia has been rapidly expanding over the recent couple of decades. The intensive expansion began with the Sakhalin projects, and then was followed by the subsequent establishment of production facilities by Japanese companies in manufacturing industries in Russia. Today, investment cooperation has reached a new developmental stage, which reveals not only quantitative, but also qualitative changes in the pattern of FDI flows, especially in terms of structure and technology.

This paper addresses the aspect of regional differences in the approach of Japanese investors toward projects in Russia. A comparison of the major macro-regions which attract Japanese investment (Far-Eastern and Western regions, including Central and North-Western Federal Districts) allows us to reveal critical differences in industrial distribution that reflect the specifics of the economic development and investment climate of these territories. However, the Western and Eastern parts of Russia complement each other in terms of their investment attraction, and contribute to the development of a multifaceted and diversified framework for investment cooperation between Russia and Japan.

Key words: Russia-Japan investment relations, investment projects, regions, Russian Far East

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<sup>1</sup> PhD, Research Fellow, Institute for Industrial and Market Studies, National Research University – Higher School of Economics, Moscow, Russia; [nylikershova@yandex.ru](mailto:nylikershova@yandex.ru)

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## 1. The background of investment cooperation

Historically, Japanese-Russian investment relations have gone through several stages of development, which were characterized by different organizational forms and level of intensity. However, investment relations have focused mostly on the same fields of cooperation (natural resource development), predominantly in the Far Eastern regions of Russia. The periodization of investment relations development suggested below reflects the emergence of new cooperation areas and forms. These stages can be described as follows:

1) Collaboration on natural resources concessions (1920-1940s) under the 1925 Soviet-Japanese Basic Convention could be considered the “starting point” of the inflow of Japanese capital into the Soviet economy (Dijkov 1991). The convention aimed to establish bilateral diplomatic and consular relations between the two countries, as well as postwar stabilization in the Far East. It granted Japanese companies the right to engage in concession projects in the coal-mining industry and in oil extraction.

2) Japan and Russia’s participation in international economic relations have led to their investment collaboration in developing natural resources, in Siberia and the Far East, through compensation agreements (1960-1980s). These projects mainly concentrated on the forestry and fuel industry (coal mining). According to the terms and conditions of the compensation agreements, the Japanese were to provide equipment under favorable credit terms for the joint enterprise, while the Soviets undertook an obligation to supply a certain volume of the enterprise’s output to Japan. The Japanese manufacturing industry therefore achieved an extensive market for the equipment and a stable source of raw materials and semi-finished products. The Soviets gained access to additional productive capacities and long-term loans, as well as high-quality goods for the domestic market and for exportation.

3) The establishment of joint ventures and further cooperation within the Special Economic Zones in the Far East (late 1980-1990s). The decree on joint ventures in the Soviet Union issued in 1987 became the first step in the creation of a regular legal framework for foreign investment. Foreign companies were given an opportunity to engage in a wider range of spheres and diversify their investment flows. By 1991, 49 joint Japanese-Soviet enterprises operated in the USSR,

although they represented less than 2% of all the joint ventures with foreign capital. By 1991, Japan took 11th place for the number of joint ventures in the Soviet Union, among developed capitalist countries. Half of the joint enterprises were involved with the timber or fishing industry. During 1987-1991, 17 joint ventures in this field were founded in the USSR. The aggregate volume of investment was around 50 mln. Rubles, and the Japanese companies' share in the enterprise equity capital amounted to around 30% (Dijkov 1991). The remainder of the ventures were in services.

4) The Sakhalin projects, which are conducted through the international cooperation with participation of Japanese companies under the Production Sharing Agreements, could be regarded as a new stage of investment cooperation development. 30% of the Sakhalin 1 project belongs to the Japanese SODECO consortium (Sakhalin Oil & Gas Development Co. Ltd) and 22.5% of the Sakhalin 2 project belongs to Mitsui Sakhalin Holdings B.V. (a subsidiary of Mitsui) and Diamond Gas Sakhalin (a subsidiary of Mitsubishi) with 12.5% and 10% respectively. The Sakhalin projects represent the largest proportion of investment cooperation between Japan and Russia; in the structure of total investment stock by Japanese companies, they amount to about 86% of an approximate \$10bn total, invested by December 2013)<sup>i</sup>. However, statistically they are regarded as an “other” type of investment and are not included in the FDI due to finance mechanisms, which imply funding using operator's special accounts.

Therefore, most investment projects tend to specialize in resource development, particularly timber and fuel. Due to geographical location and compliance with investment aims, Japanese investors focused their attention on the Russian Far East. This region has always played an extremely important role in the development of economic relations between the two countries.

Recent decade has seen several new trends in the development of Japanese-Russian investment relations. First, they included the fast and continuous growth of the volume of direct investment inflows: a 31-fold increase of stock from 2004 to 2012; the diversification of industrial structure: an increase of FDI in manufacturing and the diversification of the regional distribution of Japan's direct investment. However, despite all the qualitative changes in the Japanese direct investment trends, they still only represent a rather modest share of Japan's total investment in Russia, around 10% in 2012<sup>ii</sup>. The greatest volume of Japanese investment in the Russian economy is in their

indirect investment into the extraction sector, based in the Russian Far East. The prevalence of indirect investment creates great differences between the regional and industrial structure of the total and direct investment flow from Japan to Russia. Therefore, an analysis of Japanese-Russian investment relations must refer to different types of investment.

## 2. Regional and structural trends of Japanese investment

### 2.1. Total investment by Japanese companies

Bearing this in mind, we ought to first address the overall trends in Japanese companies' investment activities in Russia over recent years. The Japanese investment stock in Russia approached \$10,8bn in 2012<sup>iii</sup>, with the proportion of the Far Eastern Federal District (FEFD) accounting for 87% of that volume. The Central Federal District (CFD), which attracts more than half of the total investment in Russia, accounted for only 10% of the Japanese investment stock (Table 1). The North-Western Federal District (NWFD) ranked third, with less than 2%. Other districts did not attain a 1% share; therefore it would be reasonable to consider these 3 districts for further analysis.

Table 1: Japanese Investment Stock Distribution by Federal Districts, 2012

	Japan		All countries		Share of Japanese investment stock in total by regions (2012, %)
	Investment stock (2012, mln USD)	Share of Federal Districts in total volume (2012, %)	Investment stock (2012, bln USD)	Share of Federal Districts in total volume (2012, %)	
Russian Federation	10 778,9	100,00	362,366	100	2,98
Central Federal District	1 097,3	10,18	200,538	55,34	0,55
Moscow*	681,8	62,13*	149,7247	74,66*	0,46
North-Western Federal District	181,5	1,68	38,5717	10,64	0,47
Saint-Petersburg*	181,5	100,00*	20,9136	54,22*	0,87
Southern Federal District	5,8	0,05	15,1071	4,17	0,04
North-Caucasian Federal District	0,	0,00	1,5047		0,
				0,42	
Volga Federal District	30,2	0,28	15,8006	4,36	0,19
Ural Federal District	0,5	0,00	26,1243	7,21	0,
Siberian Federal District	47,8	0,44	11,9888	3,31	0,4
Far Eastern Federal District	9 415,9	87,35	53	14,55	17,86

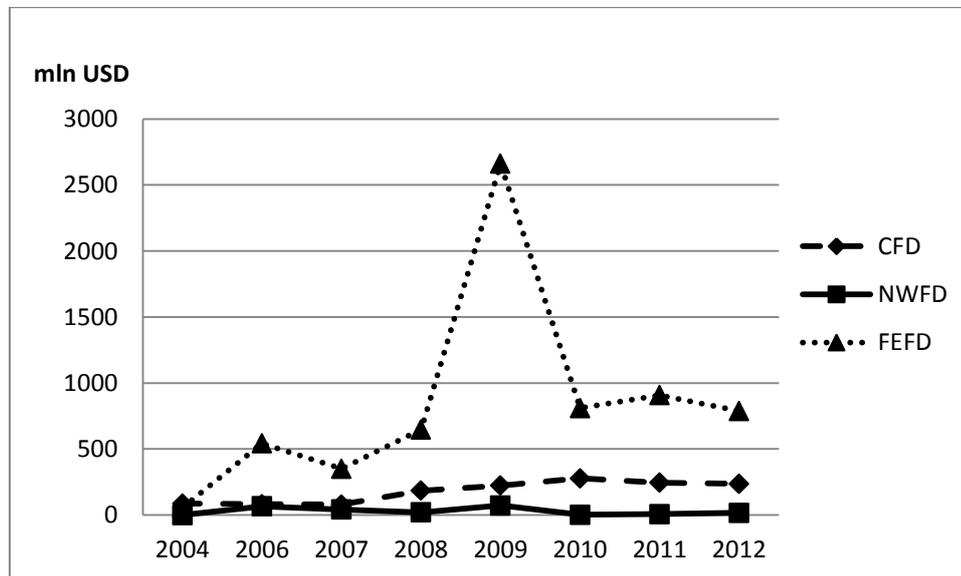
\*Moscow - percentage of CFD volume, St.Petersburg - from NWFD volume

Source: Unified Interdepartmental Statistical Information System, Federal State Statistic Service

It is also worth noting that Japan accounts for about 3% of the total foreign investment stock in Russia, while FEFD has increased its share to almost 18% (Table 1). There are various factors which may account for this trend, such as Japanese investment projects and trade which has developed in the region over time, Japan's proximal geographical location, and an abundance of resources, which attract investors.

In 2010-2012, the annual flow of Japanese capital to the FEFD regions was around \$700-800m, following a peak of \$2.7bn in 2009, while the central regions of Russia received 3 times less (\$200-250m) annually (Figure 1).

Figure 1: Japanese investment to Russia for CFD, NWFD and FEFD, 2012



Source: Unified Interdepartmental Statistical Information System, Federal State Statistic Service

The industrial structure analysis of Japanese investment in 3 Federal districts reveals a significant difference in Japanese investors' approach to regions and reflects specific features of the typical economic activities in these territories. Almost all (98%) investment in the FEFD is stocked in the extraction and mining industries. Forestry and agriculture makes up only 1.11% of the total investment and only 0.5% is invested in manufacturing, in Far Eastern regions (Table 2). The structure of Japanese investment in the Central Federal District is completely different: manufacturing and wholesale and retail trade represents about 84% of the total volume. Real estate and lease and finance

take up 6.4% and 4% of investments, respectively. In the North-Western Federal district, Japanese investments are highly concentrated in manufacturing (99.7%), and the rest is invested in the wholesale and retail trade sector.

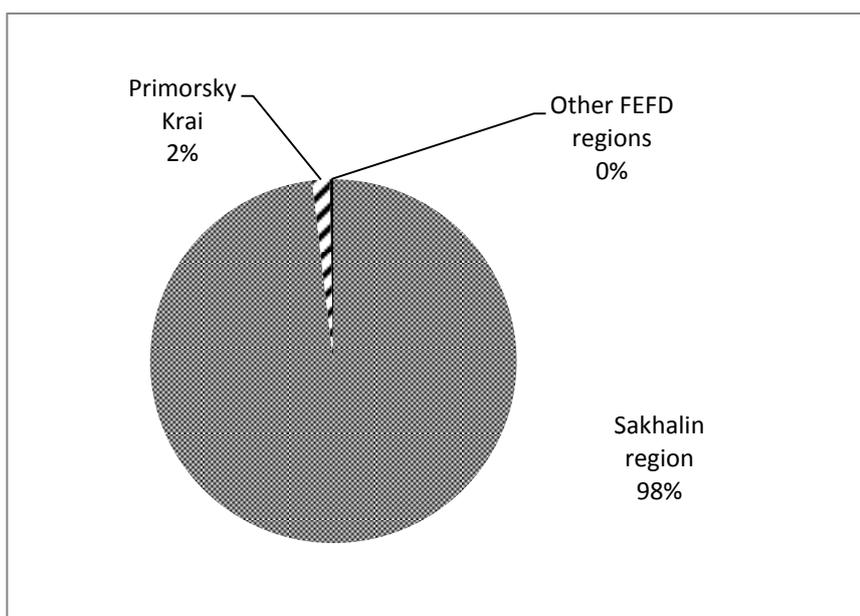
Table 2: Japan stock investment structure for the RF, FEFD, CFD, NWFD (2012, %)

	Russian Federation	FEFD	CFD	NWFD
Total	100	100	100	100
Manufacturing	6,09	0,47	36,25	99,71
Construction	0,032	0	0,29	0
Wholesale and retail trade	5,38	0,09	47,52	0,27
Transportation and communication	0,15	0,11	0,5	0
Finance	0,41	0	4,04	0
Real estate and lease	0,81	0,17	6,4	0
Forestry and agriculture	1,48	1,11	5	0
Fishery	0,03	0,04	0	0
Extraction and mining	85,62	98	0	0

Source: Unified Interdepartmental Statistical Information System, Federal State Statistic Service

In the Far Eastern Federal District, the distribution pattern of Japanese investment was mainly focused on Sakhalin shelf gas and oil extraction projects, and gas liquefaction facilities. These account for around 98% of the total investment stock volume, or \$9.24bn (Figure 2).

Figure 2: Regional distribution of Japanese investment stock in FEFD, 2012



Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

Primorsky Krai is ranked second, with 2% (\$145m) although it is actually the FEFD region with the widest range of sectors represented in investment relations with Japan. An almost equal share of the total (6-8%) is distributed between timber processing, transportation and communication and wholesale and retail trade (Table 3). Investment in the agricultural sector accounts for the largest share (72%) and chemical production and real estate operations attract a notable volume (3.5% and 3.2% respectively).

Table 3: The structure of Japanese investment stock in some regions of the FEFD, 2012, %

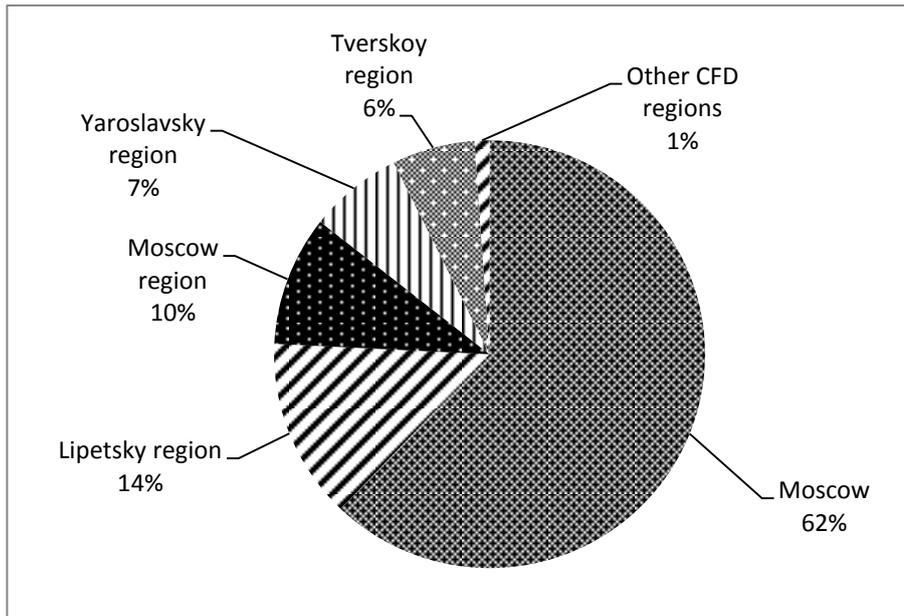
	Primorsky Krai	Sakhalin region
Forestry and timber processing	7,84	
Chemical production	3,21	
Wholesale and retail trade	5,83	
Transportation and communication	7,09	
Real estate and lease	3,54	0,12
Agriculture	72	
Extraction and mining		99,86
Other industries	0,52	0,02

Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

The FEFD Republic of Sakha (Yakutia) is also noteworthy whilst its share does not exceed 0.3%, the whole investment volume (\$27.6m) is accumulated in diamond extraction, geological exploration and engineering.

Japanese investment in the CFD are mostly directed towards Moscow (62%, \$681m), where they are mostly distributed between the wholesale and retail trade sectors (73%), real estate and leasing (10.3%), agricultural (mostly food) production (8%) and finance (6.4%) (Figure 3).

Figure 3: Regional distribution of Japanese investment stock in the CFD, 2012



Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

In fact, the CFD investment stock from Japan is the most diversified in terms of regional distribution. Aside from Moscow, there are 4 other large recipient regions, such as the Lipetsky region (14%, \$150m), the Moscow region (10%, \$108m), the Yaroslavsky (7%, \$77) and the Tverskoy region (6%, \$68m) (Table 4). However, the investment sectorial structure within these regions is not diversified at all, since Japanese investments are only engaged in certain projects for each region; rubber production at the Yokohama plant in the Lipetsky region; Hitachi Kenki excavators and large construction equipment production in the Tverskoy region, and Komatsu (excavators and other construction vehicles) and Mitsui (equipment for oil-processing plants) in the Yaroslavsky region.

Table 4: The structure of Japanese investment stock in some of the CFD regions, 2012, %

	Moscow	Lipetsky region	Moscow region	Tverskoy region	Yaroslavsky region
Rubber production		99,99			
Non-metal mineral production			36,63		
Other manufacturing			41,5	100	100
Wholesale and retail trade	73,02		21,03		
Finance	6,37		0,84		
Real estate and lease	10,3				
Agriculture	8,06				
Other industries	1,93	0,01	0,01		

Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

Other regions of the CFD are not represented by large volumes.

In the NWFD, almost all of the Japanese capital is concentrated in St Petersburg, and so the sectorial distribution pattern is the same as for the whole federal district.

Therefore, the investment activity of Japanese companies appears to be concentrated in two macro regions of Russia: the Far East (FEFD), and the Western regions (namely the CFD and NWFD). These areas account for around 99% of the Japanese investment stock in Russia, including direct, portfolio and other (the prevalent) types of investment. Japanese investment effectively specializes in certain industries, depending on the investment environment and the Russian regions' production potential. The resource availability, infrastructural development, and market conditions and requirements play a critical role in the formation of the final pattern of capital distribution between the regions and industries. In the FEFD, investment projects focus on the extraction and mining sector, forestry and timber, and some manufacturing. Quite a different pattern can be observed in the CFD: investment is concentrated in the wholesale and retail trade, particularly in manufacturing, real estate and finance sectors, while the NWFD deals almost exclusively with manufacturing projects.

## 2.2. Japanese companies' direct investment

The most large-scale investment projects involving Japanese capital are the Sakhalin shelf oil and gas extraction projects and the Sakhalin LNG plant. They account for more than 85% of all investment stock. However, almost all investment in the

Sakhalin projects is indirect capital of “other” type of investment from statistical viewpoint. They are administered through loans and via special accounts of the companies operating the projects. If we examine the trends in direct investment from Japan, excluding the Sakhalin projects, the picture would be entirely different.

There are two major trends in the current Japanese FDI inflow to Russia: the significant growth in the volume of FDI in recent years and important changes in its industrial distribution structure.

Between 2008 and 2012, the volumes of FDI from Japanese companies into the Russian economy showed a record high, and the flow of Japanese investments in 2012 exceeded the stock accumulated by 2008 (Table 5). According to JETRO data, the FDI stock experienced more than a 31-fold growth over the past 8 years, beginning in 2004.

Table 5: Japanese FDI flow and stock in Russia 2004-2010 (mln USD)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>FDI inflow</b>	49	95	160	99	306	391	350	339	757
<b>FDI stock</b>	87	157	258	373	668	954	1220	1725	2734

Source: Japan External Trade Organization (JETRO) – Japanese Trade and Investment Statistics – FDI Flow and FDI Stock (based on Balance of Payments, net)

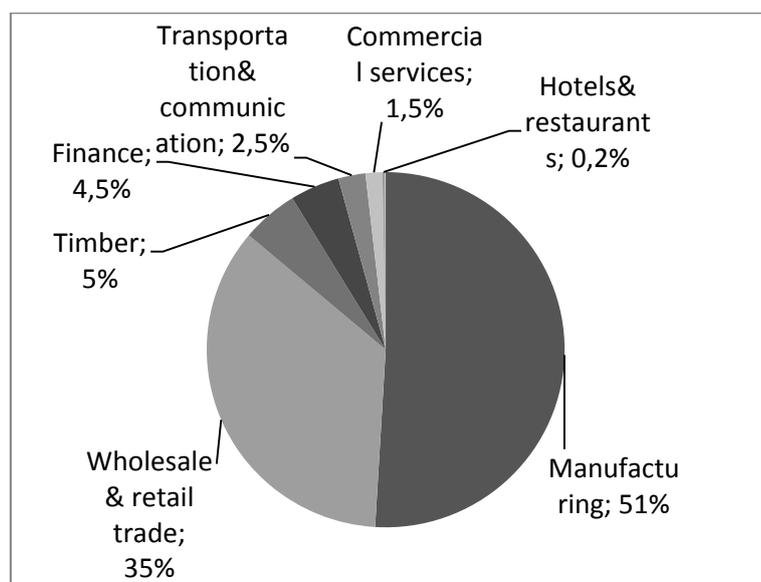
This upturn is to a certain extent a result of the low initial level of Japanese FDI in the Russian economy. This becomes clear when comparing Japan’s position as a foreign investor in Russia to other countries. Despite high growth rates, Japanese investment accounts for quite a small proportion of FDI in Russia. For instance, in 2012 Japan was the 10<sup>th</sup> country in terms of direct investment in equity capital, accounting for 2.05% of the total investments<sup>iv</sup>. However, the indicator of the share in total is strongly affected by the fact that the top investors in equity capital are mainly represented by offshore countries, such as Bahama, Bermuda and the Virgin Islands and the Netherlands.

Despite the relatively stable and dynamic growth of the Japanese company’s presence in Russia, it is clear that the scale of activity is still far lower than the true potential for investment relations between the two countries.<sup>v</sup> While the share of Japanese companies in the cumulative FDI in Russia is less than 1%, Russia accounts

for about 0.22% of total investments in the regional distribution of Japanese companies' direct equity capital investment structure.<sup>vi</sup> On the other hand, as in the Sakhalin projects, official statistics do not always adequately reflect the situation. Errors often occur due to the complexity of funding schemes and weaknesses in statistical methodologies, which do not allow FDI to be registered as direct type of investment, in some cases. For instance, at the Japan Tobacco International company, financing is conducted through European branches. As a result, these investments are not regarded statistically as Japanese FDI. This case is far from unique. According to the Russian Ministry of Economic Development, estimates of the volume of Japanese FDI actually account to about \$5bn.<sup>vii</sup> But even in this case, the adjustment of investment indices for both countries would be insignificant.

The structure of industrial distribution has experienced a major shift in investment patterns. Direct capital is mostly concentrated in the manufacturing and trade (retail and wholesale) sectors, with 51 and 35% respectively (Figure 4). Given the dynamic growth of capital inflow into the manufacturing sector (on average an approximate 2-fold inflow volume increase annually for the past 5 years) we can conclude that the technological level of Japanese FDI inflow into the Russian economy is gradually rising. For instance, manufacturing in 2013 accounted for more than 60% of the entire Japanese FDI inflow into the Russian economy.<sup>viii</sup>

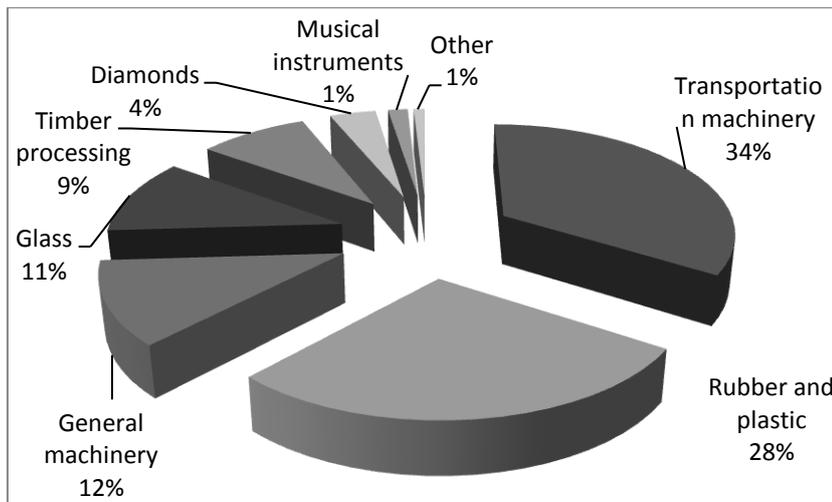
Figure 4: Japanese FDI stock structure by industry, 2012



Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

In terms of distribution within the manufacturing sector, in 2012, around one third of the FDI stock was concentrated in the transportation equipment production, 28% was in rubber and plastic products manufacturing, 12% in general machinery and 11% in glass production (Figure 5). The timber processing, diamond cutting and musical instrument production sectors are quite representative in terms of the Japanese direct investment stock.

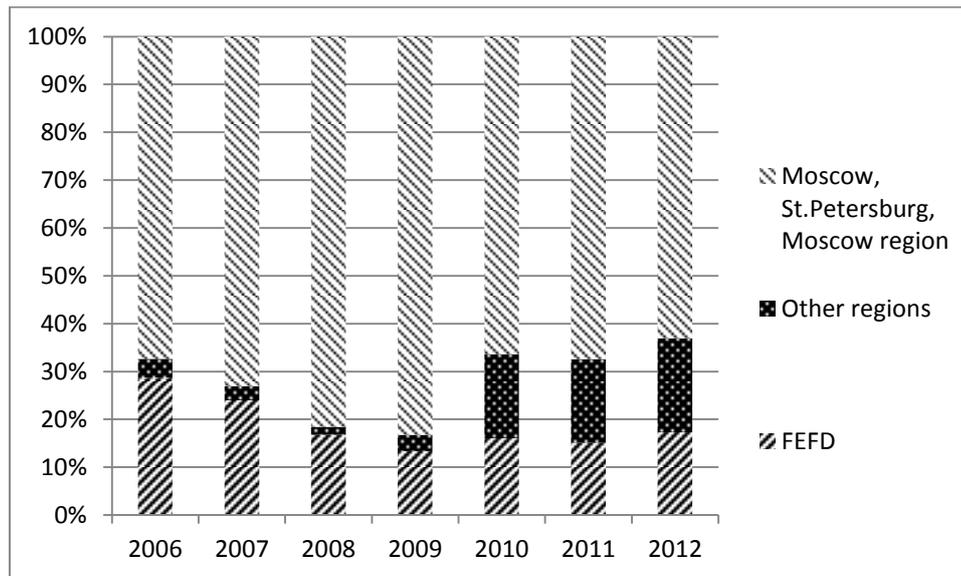
Figure 5: Japanese manufacturing FDI stock structure by industry, 2012



Source: Unified Interdepartmental Statistical Information System, Federal State Statistics Service

There is a clear trend of diversification in investment directions in the regional distribution of Japan's direct investment to Russia, as of 2010. Although in 2006 the share of the FEFD and 3 regions of the CFD, namely Moscow, St Petersburg and the outer Moscow region accounted for 96% of the total, by 2012 the share of other regions increased to almost 20% (Figure 6). The share of the Far Eastern Federal District regions decreased from 29% to 17% regardless of a 70% growth in investment stock on average within the period mentioned. The main recipients were the Primorsky and Khabarovsk Krai areas, as well as the Republic of Sakha (Yakutia).

Figure 6: Japanese FDI stock regional distribution trend (FDI stock share of particular regions, %)



Source: Unified Interdepartmental Statistical Information System, Federal State Statistic Service

The main regions which succeeded in attracting Japanese FDI in 2012 included Moscow and St. Petersburg (47 and 17% respectively), but the Lipetsky region replaced the Moscow region as the third top recipient (11.3% vs. 10.1%). Together with the Tverskoy, Nizhegorodsky and Yaroslavsky regions, the Lipetsky region greatly contributed to the diversification of distribution, thanks to the dramatic increase in FDI inflow. The share of manufacturing investment in the Moscow region approached 98%, while in Moscow 86% of the total Japanese direct capital was stocked in the wholesale trade.

Almost all of the leading regions attracted Japanese FDI towards a narrow range of (or even single) certain industries, which reflects the region's specialization and market conditions. For example, St. Petersburg attracted 93% of the total Japanese investment stock in transportation equipment production in Russia; Primorsky Krai and Khabarovsk Krai attracted 90% of the FDI in wood processing, and 80% of investment in transportation and communication.

Below are some examples of investment projects which underpin the statistics for the two macro-regions.

### **3. Japanese investment projects in Russia**

#### **3.1. Projects in the Western part of Russia**

Following the “pioneers”, Toyota and Nissan, who decided to set up production plants near St. Petersburg, other Japanese automobile producers such as Isuzu (light trucks), Mitsubishi Motors (in cooperation with Peugeot-Citroen), Mitsubishi Fuso (trucks) and Komatsu (road-construction equipment and machines), have also begun to open their plants in Russia. This caused an intensive inflow of investment into other related industries. For instance, “Asahi Glass” established its second sheet glass production plant in Nizhniy Novgorod (the first one is in Klin) and “Yokohama Rubber” has been producing automobile tires in the Lipetsky region since 2011. The automobile industry is amalgamating a set of related production companies, which are focused on supplying details and components to assembly plants. “Toyota Boshoku” (car seats), “Ishikawajima-Harima Heavy Industries” (details of passenger and truck body), “Daido Metal” (bearings), “Sakura Kogyo” (details of breaking and fuel systems) are among the list of these companies. In 2014, Hitachi Kenki began producing excavators in Tver?. Automobile production has become a core industry for Japanese direct capital, and implies an increase of FDI inflow into related industries (cluster development), the growth of the technological level of investment. This therefore contributes to the development of a balanced industrial structure within the Russian economy.

The chemical industry also attracts Japanese investors: Sojitz and Mitsubishi have plants which process ammonia and methanol in Tatarstan, and Marubeni has invested in the modernization of chemical plants in Tatarstan, the Novosibirskiy region and Krasnodarsky Krai. Panasonic and Sony run assembly plants in the Kaliningradsky region; Ajinomoto is engaged in food production and Fujikura has established fiber-optic materials production in Moscow. This list is far from exhaustive.

In the trade sector, FDI is mostly concentrated in retail and wholesale trade in machinery, equipment (55%) and automobile parts (34%). The FDI distribution pattern in trade is largely connected to the structure of import and reflects the development of the sales network, after-sale services and technical support chains. It is particularly common for producers of household and office equipment, as well as in construction and special equipment.

In the financial and banking sphere, the largest Japanese banks such as Tokyo-Mitsubishi UFJ, Mitsui Sumitomo, the Mizuho Corporate Bank and the Toyota Bank opened representative offices in Russia, mainly to support Japanese companies' activities there. Evidently, banking also attracts Japanese investment in the Far Eastern regions.

### **3.2. Projects in the Far Eastern region**

Aside from the Sakhalin projects and the LNG plant mentioned above, there are several large extraction projects which are conducted in the FEFD or the Siberian Federal District (SFD) with the participation of Japanese capital. For example, there is a gold field in the Chukotsky region which is being explored by Mitsubishi, and a project in a uranium field in Yakutia, in which the Mitsui Bussan company is participating.

Two plants, jointly established by Sumitomo and Terneiles in Primorsky Krai are amongst the latest timber processing investment projects in the Far East region. The largest joint ventures in communication are projects by KDDI-Rostelecom (a fiber-optic communication line between Nakhodka and Joetsu) and NTTCom-Transtelecom (a fiber-optic cable between Nevelsk and Ishikari).

Recently, Japanese automobile producers began to explore the Russian Far East. In 2012, Mazda opened a joint plant with Sollers in Vladivostok, while Toyota started the LandCruiser Prado assembly line at the Sollers- Mitsui&Co joint production platform in 2013. The types of automobiles produced in the Western and Eastern parts of Russia are particularly interesting. Since the markets of these two macro regions are logistically separated from each other and are different, the producers are obliged to develop individual market strategies for each of them. The Far East market demands crossovers to cope with different road types and severe weather conditions. At the same time, in Western regions the preferences are more differentiated: "family" cars are almost as popular as crossovers, or even more so. On the other hand, regions with a high income (Moscow, St Petersburg and some Southern regions of the Russian Caucasus) create demand for luxury cars. Therefore, Japanese producers adapt their local production facilities to be in line with the market trends.

#### **4. Investment cooperation prospects**

The current trends in the development of Japanese-Russian investment relations and the mutual interests of both countries make it logical to assume that the energy sector is likely to continue being the priority sphere of cooperation. There are plans for another gas liquefaction plant to be built in Vladivostok, and for the development of cooperation in the potential hydrocarbon deposits in East Siberia and in the Far East. Energy is an area of great interest for both countries: Japan is looking for stable resource supplies and to optimize its energy balance, while Russia is interested in the development of energy cooperation towards Asia. The cooperation project is therefore propelled by mutual interest.

The localization of the existing production, and the construction of new facilities will ensure a high level of investment inflow in mid- and high-tech manufacturing industries such as oil and gas, chemicals (gas- and petrochemical industry), machinery, and primarily automobile parts and components production. In line with this, Toshiba is planning to begin production of automobile electric transformers in St Petersburg in 2014. Another interesting project is a Toyota car utilizing plant which is to be built in Moscow<sup>ix</sup>. This project is both timely and relevant considering the large and outdated car fleet in Russia, and marks the beginning of a new and very promising sphere of cooperation for the two countries.

The cooperation in high-tech innovation sectors may include medicine and the pharmaceutical industry. For example, the Kanazawa Medical University in cooperation with the Yaroslavskaya Medical Academy founded the Russian endoscopic training center in 2007, which allows them to train doctors to conduct endoscopic surgery. In 2014, Takeda-Nycomed finished construction of a plant that started pharmaceutical production for oncological and nephrological treatment.<sup>x</sup>

Finally, one of the most promising spheres of cooperation between Russia and Japan is the application of energy-efficient technologies, especially on production premises. “If we take an energy unit used to produce 1 conventional GDP unit in Japan for 1, the same indicator would be 16.8 for Russia, while in China it would be 8.3, 2.1 in the US, and 1.8 in the EU” (Ide 2012). This offers some explanation as to why the application of Japanese energy efficiency boosting technologies and experience seems extremely promising. Renewable power, combined energy generation technologies and

intellectual power networks are all examples of cooperation within the development sphere.

### **Conclusions**

The current scale of investment cooperation between Russia and Japan has reached a new stage, both in its qualitative and quantitative aspects. Japanese business in Russia is experiencing an unprecedented growth period and the past decade, without exaggeration, could be referred to as a new historical stage in Russo-Japanese investment cooperation. Over the past 10 years, Japan has moved from 30<sup>th</sup> place to the top 10 investors in terms of its capital investments in Russia.

The driving factors for Japanese companies towards the penetration of foreign markets and the increase in overseas investment are numerous and diverse. They include access to resources and markets; the avoidance of trading barriers and the effect of the yen's appreciation; the use of relatively cheap local resources to explore the local market; an increase in local sales; exportation to third countries, or re-exportation. Investment in Russia offers Japan opportunities to explore almost all the possible stimulating factors in investment, which differ depending on the recipient region or industry.

Historically, investment cooperation between Japanese companies and Russia was almost only limited to resource exploration projects. However, the current development of their relationship indicates a shift away from the one-way perception of investment opportunities. The changes in market potential and trends have contributed to structural shifts in Russia-Japanese investment cooperation, particularly the increase of the technological level of investment and the development of production clusters, primarily in the automotive industry.

The strategies and motivation factors for Japanese investors largely depend on the opportunities which underpin it. The Russian market can be divided into two main sections, the Western (European) and Far Eastern and Siberian sections, which lack clear boundaries and which show diverse trends. The former attracts investors with its capacious and promising market, quick economic growth and opportunities for cluster production development. The Far Eastern and Siberian regions are extremely important for investment cooperation, since they are promising for resource development projects and a great logistic advantage, thanks to its geographical proximity to Japan. Therefore,

the strategies both for production and market exploration should be adapted to local and regional conditions.

It is difficult to determine which region is more important for investment cooperation, because the structure of relations differs dramatically. In fact, the Western and Eastern parts of Russia complement each other in terms of their attractiveness for investment. Therefore, they both contribute to the development of a multifaceted and diversified framework for investment cooperation between Russia and Japan.

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<sup>iv</sup> Bank of Russia, Statistics, Macroeconomic statistics, External sector statistics, Direct investment in Russian Federation [http://www.cbr.ru/Eng/statistics/?PrtId=macro\\_itm](http://www.cbr.ru/Eng/statistics/?PrtId=macro_itm) (Extracted in Russian [http://www.cbr.ru/statistics/?Prtid=svs&ch=PAR\\_30241#CheckedItem](http://www.cbr.ru/statistics/?Prtid=svs&ch=PAR_30241#CheckedItem) )

<sup>v</sup> According to Motoyuki Oka, the chairman of Japan-Russia economic cooperation committee, in the near future Japanese investment in Russia even could possibly reach 30 bln. doll. – Rosbalt Business *Rossija teryaet 9/10 japonskih investitsij [Russia loses 9/10 of Japanese investment]* 08.09.2008 14:18 <http://www.rosbalt.ru/business/2008/09/08/521404.html> [In Russian]

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<sup>ix</sup> Autonews.ru News portal Toyota planiruet postroit' v Podmoskov'e utilizatsionnyj zavod [Toyota is planning to build a utilization plant in the Moscow region] 19.10.2012 [In Russian]  
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## **Nina Ershova**

PhD, Research Fellow, Institute for Industrial and Market Studies, National Research University – Higher School of Economics, Moscow, Russia; [nylikershova@yandex.ru](mailto:nylikershova@yandex.ru)

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