



JAPAN AND CENTRAL ASIA

Do Diplomacy and Business Go Hand-in-Hand?

Nikolay MURASHKIN

April 2019

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ISBN: 979-10-373-0023-2

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How to cite this publication:

Nikolay Murashkin, “Japan and Central Asia: Do Diplomacy and Business Go Hand-in-Hand?”, *Études de l’Ifri*, Ifri, April 2019.

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Executive Summary

Japan's policies in post-Soviet Central Asia, similarly to its actions in other Asian subregions, have often been interpreted recently as reactions to China's advances – in particular, the Belt and Road Initiative. This first impression can be misleading. Japan's relationship-building with the region has been taking place since the very independence of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan and has undergone various stages of development. At different points, Tokyo has had to reconcile sometimes mutually contradictory approaches of romanticism, value-oriented diplomacy, pragmatism and, to some extent, power politics.

Although scholars often extrapolate the Sino-Japanese rivalry observed in wider Asia onto Central Asia, the trend is less visible in this specific region. Here, Japan and China currently appear to be sticking to their own niches, while the strategic and geo-economic value of the region for Japan is comparatively lower than in other Asian subregions, such as Southeast Asia.

Currently, Japan appears to have definitively moved on from the regional diplomacy of grand designs that it had promoted in the past decades. It has rather moved toward pragmatic business development with Central Asia, while also maintaining its unique status – and soft-power credential – as a development sponsor. Although the region's strategic importance is acknowledged in Japan's diplomatic documents, the foreign policy of Prime Minister Shinzo Abe's cabinets toward Central Asia has largely focused on commercial aspects rather than on geopolitical initiatives, marking a contrast with Abe's predecessors from the early 2000s.

While Kazakhstan and Uzbekistan have traditionally been focal points of Japanese business presence in the region, Abe's 2015 visit pointed toward the growing relative importance of Turkmenistan as an importer of Japanese technology. At the same time, the fanfare that accompanied that visit in terms of deal value is yet to materialize in concrete results. Despite Uzbekistan's high industrial potential, its still strong aid ties with Japan and US\$8.5 billion worth of contracts signed in 2015, in the recent years Japanese business presence in that key regional country has been developing below the expectations of Japanese stakeholders.¹

1. Japanese-Uzbek deals struck in 2015, included a US\$5-billion investment pledge from Japan.

Changes in the development finance landscape have rather adversely affected Japan's competitive edge and soft-power capability in Central Asia. At the early stage of relationship-building of 1990s, Japan's position as top donor of Official Development Assistance (ODA) and an advocate of less politically conditional lending to the region advantageously differentiated it from other OECD donors. In the 2000s, this advantage diminished due to Japan's ODA reduction and due to the improvement of Central Asia's financial standings thanks to a combination of economic reforms in some of the countries, growing income from remittances, windfall income from the commodity super-cycle and the rise of non-OECD donors, especially China. Japan's soft power has been consistently strong in the region, keeping local attitudes towards Tokyo extremely positive (in contrast with more mixed perceptions of China, for example), while also remaining difficult to directly convert into commercial deals. In the meantime, the focus of Central Asia's needs has also shifted away from ODA to direct investment that Japan has more difficulties to address – unlike some of Japan's competitors, such as South Korea.

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Introduction

The period of 2017-2018 marked four important commemorative dates in Japan's relations with Central Asia. Firstly, in 2017 these countries celebrated the 25th anniversary of establishing diplomatic relations. The second memorable date that year was the 20th anniversary of Prime Minister Ryutaro Hashimoto's *Eurasian Diplomacy as Viewed from the Pacific* – a strategic vision of Japan's engagement with China, Russia and, for the first time, Central Asia. Thirdly, the Eurasian Diplomacy was followed up by a Japanese diplomatic initiative known as the Silk Road Action Plan, launched by Prime Minister Keizo Obuchi in 1998. Both concepts were arguably pioneering in introducing the discourse of Silk Road, into not only Japanese but also international diplomatic rhetoric outside Central Asia *per se*. Hashimoto's Eurasian Diplomacy, announced in 1997, was the first Japanese concept of diplomatic engagement with Central Asia that, together with the post-Soviet states of the South Caucasus, was referred to as Silk Road Countries. Obuchi's 1998 Silk Road Action Plan stipulated specific policy measures for the materialization of that vision.

Last but not least, it was in 1998 that Japanese academic Yutaka Akino was killed in an ambush during his work for a UN peace-building mission in Tajikistan. This tragic event, somewhat foreshadowing 9/11, drew the attention of many in the Japanese scholarly community, government circles, and wider society towards the issues of 'hard' security in Eurasia and had important implications for Japan's contribution to Central Asia's human security.

In retrospect – and five years into China's Belt and Road era – Japan appears to be an early trend-setter with regards to the idea of the New Silk Road as linkage partnership between East Asian and Central Asian countries involving significant financial and infrastructural elements. Japan's 1997-98 initiatives came before the U.S. Silk Road Strategy Act of 1999, the U.S. New Silk Road Initiative of 2011 and China's Silk Road Economic Belt initiative of 2013, while also being different in nature and purpose. The Japanese private sector echoed this pioneering spirit at the time - for instance, as early as in 1998, Sumitomo was proposing an integrated regional management

The author wishes to thank the valued experts without whose opinions and perspectives this work would not have been possible (in alphabetical order): Iskander Akylbayev, Tetsuro Chida, Akio Kawato, Toshiharu Kitamura, Umid Makhmudov, Manabu Shimoyashiro, Takeshi Yuasa, as well as respondents who preferred to remain anonymous.

system of transport infrastructure in Central Asia, albeit with little ultimate success.²

In 2015, Prime Minister Shinzo Abe paid an unprecedented visit to all five regional states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; contracts of aggregate US\$27 billion were signed during that tour. Aside from this highlight, however, Japan has been maintaining a rather low-key Central Asian posture lately – especially when contrasted with the attention that China’s megaproject has consistently garnered in headlines. Japan also ceded to other countries its once-held position of top donor to the region – with the notable exception of Uzbekistan, where Japan maintained its top donor status in 2013-2016.³ Nevertheless, Japan’s relationship with Central Asia is still significant and noteworthy due to still untapped potential, including that of nascent regional ties between East and Central Asia, positive mutual perceptions, Central Asia’s multi-vector diplomacies seeking to maximize the number of external players involved in the region, and Japan’s position of the second-largest Asian economy.

How are the relations between Japan and Central Asian states faring now? Is Central Asia yet another sub-region of wider Asia risking becoming a battleground of rising Sino-Japanese rivalry? Or, on the contrary, is the ‘action movie’ portrayal of Sino-Japanese competition distortive, obscuring a more business as usual interaction?

This report examines Japan’s policy goals in the region, focusing on diplomacy and economy, and the instruments it has at its disposal to further those goals. It locates the Japan-Central Asia relationship within the context of Japan’s cooperative and competitive relations with China and Russia, two major regional powers. Furthermore, the analysis will separately deal with Japan’s policies regarding international connectivity infrastructure projects in general and reactions regarding the Belt and Road Initiative in particular.

A cliché observation that frequently springs to mind is Japan’s supposed “losing out” to China in the region. However, whether Japan possesses an ambition, let alone a coherent strategy to outcompete China in the New Silk Road, is in itself a question worth investigating. And this is where the examination of Japan’s contemporary relations with Central Asia sheds light on competitive and cooperative postures between the two Asian economic giants. On the one hand, the governments of Shinzo Abe and some of his predecessors have actively called for ‘open regionalism’ in Central Asia

2. O. Reznikova, “Tsentral’naya Aziya i Aziatsko-Tihookeanskiy region” [Central Asia and the Asia-Pacific region], *Mirovaya ekonomika i mezhdunarodnye otnosheniya* [World Politics and International Relations], Vol. 4., 1999.

3. MOFA, “Uzbekisutan kiso de-ta” (Uzbekistan basic data), www.mofa.go.jp; *Japan’s Development Cooperation* 2018. *White Paper on Development Cooperation* 2017.

and stressed the need for quality infrastructure. On the other hand, this rhetoric notwithstanding, Japan has not openly challenged China in regional politics, while Japanese companies, despite a somewhat stagnant presence, have often opted for niches not contested by Chinese companies.

While China's much-hyped Belt and Road Initiative generated a certain amount of unrealistic expectations in potential recipient and borrower countries, Japan's relations with Central Asia showed an opposite trend. After a euphoric start in the 1990s and some mild turbulence and oscillation in the 2000s, the Japan-Central Asia relationship hit a plateau that together with stagnation instilled realism and maturity – potentially, a positive signal in the long term. In contrast to the Belt and Road, there is little 'queuing' for the manna of Japanese concessional loans in Central Asia as those are considered fairly hard-to-get. And this is the dilemma Japan is facing as lender and technology exporter not only in Central Asia but in the wider Asia-Pacific: it stresses the high quality of its financing and infrastructure as its comparative advantage as opposed to China's price and speed – so far with limited success in the short term.

Japan's Evolving Diplomatic Approach to Central Asia

From early version of New Silk Roads to down-to-earth pragmatism

According to polled Japanese and Central Asian experts, the current priority sectors of Japan-Central Asia cooperation rank in the following way: natural resources (oil and gas, metals, including rare earths), security issues, transportation, logistics and infrastructure, disaster prevention measures, water and tourism.

In its Diplomatic Bluebook 2018, Japan's principal strategic conceptual document regarding the country's foreign policy, the Ministry of Foreign Affairs summarized its Central Asian diplomacy in the following way:

“Japan is supporting the “open, stable and self-sustained development” of Central Asia, which is geopolitically important and is promoting the development-support diplomacy with the objective of contributing to the peace and stability of the region. The three pillars of Japan's diplomacy in Central Asia are as follows; (1) fundamental strengthening of bilateral relationships; (2) encouragement of regional cooperation and contribution to the common issues of the region through the “Central Asia plus Japan” Dialogue; and (3) cooperation in the global arena.”⁴

A comparison of Central Asia-related wording across these annual documents from 2018 and previous years shows consistent references to the region's strategic importance, stemming from its location between major Eurasian powers, its abundant mineral riches and its exposure to global challenges of terrorism and drug trafficking. However, while those factors remained largely unchanged, their relative weight in Japanese regional diplomacy has shifted in line with the evolution of Japan's priorities, which is summarized below. It is important to explore past diplomatic activities, because the current, somewhat quiet state of Japan's affairs with Central Asian republics is largely a crystallized legacy of those proactive days.

4. MOFA Diplomatic Bluebook 2018, p. 149.

Based on changing drivers and prioritization of Japan's Central Asian diplomacy, the chronology of relation-building can be broken down into the following five periods:

1. 1992-1997: Establishment of diplomatic relations, dispatch of first missions, Japan's development advice on market transition reforms and sponsorship of Central Asia's membership in regional development banks. The Japanese government starts providing Official Development Assistance (ODA), while Japanese companies express early interest in Central Asian resources and in related pipeline infrastructure projects.
2. 1997-2001: PM Ryutaro Hashimoto's Eurasian Diplomacy and PM Keizo Obuchi's Silk Road Action Plan – the first diplomatic conceptualizations of Japan's diplomacy towards Central Asia. The Asian Development Bank (ADB) launched the Central Asian Regional Economic Cooperation program (CAREC) and supported the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. ADB's CAREC was Central Asia's first externally-sponsored regional connectivity program, predating the Silk Road Economic Belt by over a decade and a half. Between 1999 and 2005, the ADB was headed by President Tadao Chino who had previously built close ties with some Central Asian leaders during his tenure at the Ministry of Finance. Japan continuously ranks as the top donor to Central Asian countries in this period.
3. 2001-2009: Post-9/11 securitization of the relationship due to PM Jun'ichiro Koizumi's active policy of 'sharing the burden' with the US as regards the Bush administration's policies in Afghanistan. The influence of Afghanistan on Japan's relationship with Central Asia increases accordingly. The Central Asia Plus Japan dialogue format is established in 2004 and remains a central platform of multilateral interaction until now. In 2005-2006, Koizumi's and Abe's foreign policy team headed by then-Foreign Minister Taro Aso comes up with the concept of Arc of Freedom and Prosperity that calls for promotion of democratic values in various sub-regions of Eurasia and the Middle East, which is then interpreted in Beijing and Moscow as Japan's balancing act. Although ultimately this concept remained largely unimplemented and its intents were oft-debated, it manifested Japan's ambition to step up its game in the region, which ultimately appeared tempered. While Abe's first premiership featured largely the same foreign

policy team, his Central Asian policy largely focused on resource diplomacy.

4. 2009-2012: Seeking to improve Tokyo's ties with Beijing, three cabinets of ministers formed by the Democratic Party of Japan abandoned the concept of Arc of Freedom and Prosperity. At the same time, DPJ prime ministers, especially Yoshihiko Noda, maintained resource diplomacy, including Central Asia. Uranium mining and nuclear cooperation experienced a boost – until the post-3/11 policy change and domestic politics in Central Asia shift the focus from atomic energy to rare earths. It is under the DPJ cabinets that the government started a proactive promotion of Japanese infrastructure exports.
5. 2012-present: Crystallization of pragmatism and resource diplomacy in the second Abe premiership and toning down of the value-oriented component. As will be shown below in a dedicated section, Abe's Central Asian policy remained consistent with his first premiership in terms of promoting business ties. Three of four visits to Central Asia paid by the heads of Japanese Ministry of Economy, Trade and Industry (METI) took place during Abe's legislatures.

Individuals matter: visits and personal ties

The dynamics of visits paid by senior officials is a useful indicator of changes in the relationship. Although it is a non-exhaustive benchmark, it conveys, in broad strokes, the ups and downs of Japan's ties with a given Central Asian country. In particular, three trends can be observed based on that data.

Firstly, the most striking fact is that only twice had an incumbent Japanese prime minister travelled to the region: Koizumi in 2006 (visiting Kazakhstan and Uzbekistan) and Abe in 2015 (touring all five states). This scarcity pales in comparison to the frequency of meetings that Central Asian leaders have with their Chinese and Russian counterparts – usually several times a year. Nevertheless, even if the scarcity of top-level visits reflects Central Asia's peripheral value for Japan, it does not necessarily serve as impediment. Secondly, Abe's latest premiership has been characterized by a markedly higher tempo of visits as compared to the late 2000s and early

2010s.⁵ Thirdly, it appears that Japanese-Uzbek relations were particularly reliant on personalities. According to Japanese respondents, despite the commercial flare of Abe's 2015 visit and increasing Uzbekistan-bound ODA of the second Abe premiership, this bilateral relationship stagnated after the 2016 change of leadership.⁶ Furthermore, President Mirziyoyev gradually sidelined previously powerful politician Rustam Azimov who was one of the key point persons in the Uzbek-Japanese relationship. Despite having embarked on heavy foreign travel schedule, Mirziyoyev has not paid a visit to Japan for more than two years into incumbency; his visit was reportedly slated for 2019, which may affect the situation.⁷ While Japanese diplomats take the dispatch of PM Abdulla Aripov to high-profile Japanese diplomatic events as a positive sign, Japanese business expressed concern about the future of Japanese-Uzbek cooperation. The appointment of Elyor Ganiyev, another senior official with past experience of interacting with Japan, to the rank of Deputy prime minister for Investment and Foreign Economic Relations may improve Japanese-Uzbek economic ties. At the same time, a negative effect from leadership change is common and may be mitigated over time, as was the case in Japanese-Turkmen relations after the succession of President Saparmurad Niyazov by incumbent Gurbanguly Berdimuhamedov. Furthermore, it is unclear how the leadership change in Kazakhstan with the resignation of Nursultan Nazarbayev on March 19, 2019 will affect Japan's positions there.

Priority to the economic diplomacy

The table below demonstrates that the region's two largest, most populous and resource-rich countries, Kazakhstan and Uzbekistan, account for the bulk of Japan's direct investment abroad and ODA in Central Asia. In fact, judging by more up-to-date (end 2017) figures of the Uzbek Foreign Ministry as opposed to Japan's MOFA, the figure of Japan's ODA to Uzbekistan is even higher – US\$4.1 billion.⁸ In 2013, 2014 and 2015 (first three years of Shinzo Abe's second premiership), Japan has regained its status as top ODA donor to Uzbekistan.⁹

5. MOFA, "Japan-Turkmenistan Relations" (Basic Data), 2018, available at: www.mofa.go.jp; MOFA, "Japan-Uzbekistan Relations" (Basic Data), 2018 available at: <http://www.mofa.go.jp>.

6. Interviews with Japanese experts, St. Petersburg, August 2018.

7. In January 2019, media reported that President Mirziyoyev considered visiting Japan in 2019.

8. "Sotrudnichestvo Respubliki Uzbekistan so stranami ATR" [The Republic of Uzbekistan's cooperation with Asia-Pacific Countries], Uzbek Ministry of Foreign Affairs, 2018, available at: www.mfa.uz/.

9. MOFA, "Uzbekistan kiso de-ta" (Uzbekistan basic data), www.mofa.go.jp.

Table 1. A snapshot of Japan's trade, investment and ODA with Central Asian countries (US\$ million) ¹⁰

US\$ million	Kazakhstan	Uzbekistan	Turkmenistan	Kyrgyzstan	Tajikistan
Trade (2017)	1,525.78	124.80	81.59	22.66	7.32
FDI stock (end 2015)	5,350.00	3,500.00	N/A	<0.2	Negl.
ODA (2016)	1,029.58	2,852.09	55.49	725.01	371.81

Sources: Japan's MOFA, Kazakhstan's National Bank, www.eadaily.com, www.kapital.kz, www.ibc.kg, 365info.kz, www.uzbchron.wordpress.com.

Similarly to Japanese foreign policy in general, its ODA to Central Asia served not only as a main instrument for the maintenance of regional development, but also as a main tool for “establishing bilateral relationships and supporting Japan's foreign policy objectives in recipient countries”.¹¹ As shown in the table 2 and figure 2, the breakdown of various types of development assistance is similar to the oft-observed pattern in Japanese aid: the dominance of loan aid and infrastructure financing. In the case of Central Asia, the size of this financing correlates with the countries' resource endowments that imply a better repayment capacity.¹² At the same time, from the diplomatic standpoint, this contribution was aimed at helping the

10. In Table 1, ODA values are presented as the sum of loan aid, grant aid and technical cooperation. ODA figures are provided as cumulative up to 2016. Japan's FDI stock is presented as at late 2015. The reason for providing different years for different data categories is the low accessibility of uniform data for all five countries: some states have more up to date data than others. In that regard, figures are indicative and may not be authoritative. The FDI stock figures are subject to marked real-time change in line with the eventual implementation of large-scale investment agreements reached in 2015, especially in the case of Turkmenistan and Uzbekistan. The historical conversion rate for JPY/USD was taken from www.xe.com.

11. B. Nazarmuhamedov, “Japan's ODA Policy Toward Central Asia and the Caucasus. An Analysis of Japanese Assistance to Economic Development in Kyrgyzstan and Armenia”, *Journal of International and Advanced Japanese Studies*, Vol. 10, March 2018, p. 183.

12. Japan's focus on loan aid and infrastructure was recurrently highlighted in the studies of Japanese foreign aid, for instance, A. Rix, *Japan's Foreign Aid Challenge: Policy Reform and Aid Leadership*, London: Routledge, 1993 and M. Söderberg (ed.) *The Business of Japanese Foreign Aid: Five Case Studies from Asia*, London: Routledge, 1996.

newly independent states to foster independent foreign policy, avoiding excessive dependence on one or another major power.¹³

Table 2. Japanese ODA in Central Asia (balance as of 2015)¹⁴

ODA type, US\$ million (2016)	Kazakhstan	Uzbekistan	Turkmenistan	Kyrgyzstan	Tajikistan
Loan aid	845.99	2459.59	40.06	334.13	0.00
Grant aid	55.73	222.30	5.57	233.76	305.70
Technical assistance	127.86	170.20	9.86	157.12	66.11
TOTAL	1029.58	2852.09	55.49	725.01	371.81

Source: Japan's MOFA.

Kazakhstan and Uzbekistan are particularly important in terms of transport infrastructure due to their strategic location: Kazakhstan borders China, Russia, the Caspian Sea and all Central Asian republics apart from Tajikistan. Uzbekistan is the only country to border all five Central Asian states and Afghanistan, making it a potentially central transport hub. At the same time, Uzbekistan is uniquely one of the only two doubly-landlocked countries in the world, which stimulates Tashkent's international cooperation over transport infrastructure to overcome this geographic predicament.

13. Interview with Japanese expert, Tokyo, 2012.

14. Same note for the dates of ODA figures as for Table 1.

Figure 1. Central Asia's map

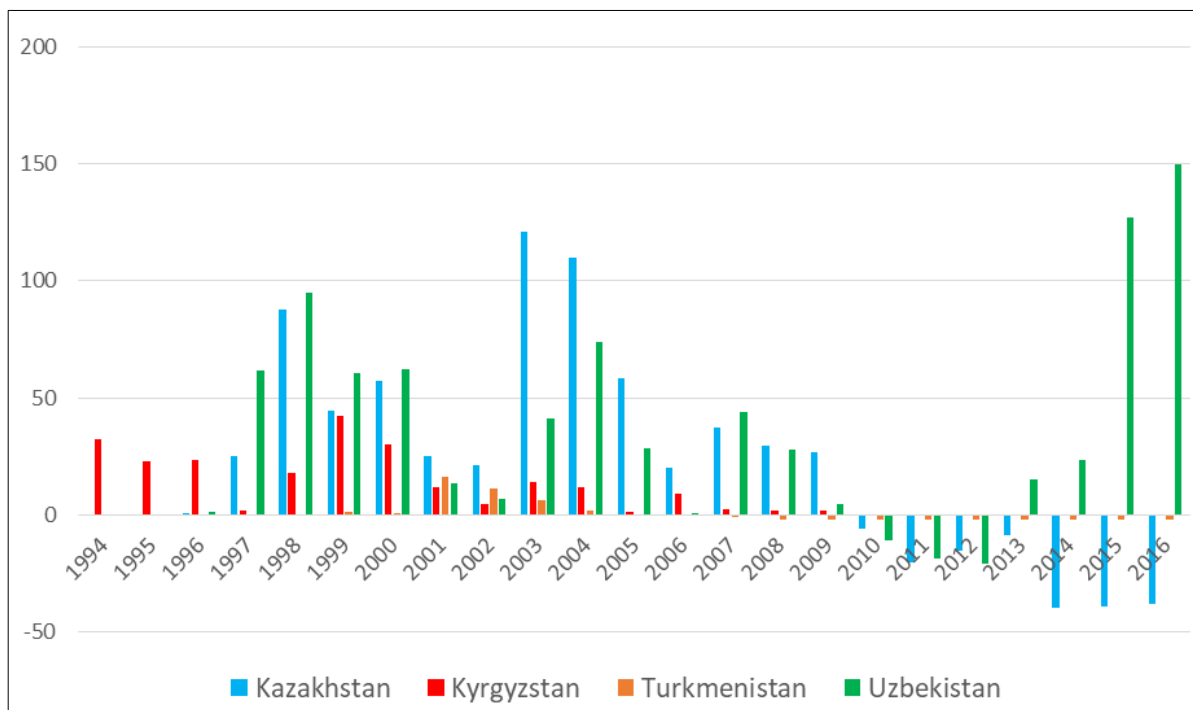


Source: Perry Castenada Map Library at the University of Texas.

Figure 2 shows the share of loan aid to Central Asia, evidencing the clear dominance of Kazakhstan and Uzbekistan in that ODA type due to their repayment capacity but also relative commercial significance. The “low” period of 2009-2012 corresponds to the premierships of the Democratic Party of Japan as well as the “graduation” of Kazakhstan from Japan’s loan aid and resulting repayments of borrowed monies. Shinzo Abe’s second premiership (2012-present) marks a resurgence of loans to Uzbekistan.¹⁵

15. The increase of ODA to Uzbekistan is shown on the available data, that is, until 2016 – the change of Uzbek leadership in 2016 may have influenced the scale of subsequent Uzbek-Japanese development cooperation.

**Figure 2. Japan's loan aid to Central Asia in 1994-2016
(in US\$ M)**



Source: Japan's MOFA.

The role of Japan's assistance to Central Asia went well beyond "checkbook diplomacy". JICA and other Japanese organizations consistently provided extensive training programs to Central Asian government officials, lawyers, financiers, businessmen and other professionals both in the region, via dedicated centers, and in Japan through scholarships, courses and other assistance formats. According to former Foreign Minister Fumio Kishida, Japan had dispatched 2,587 specialists to the region and trained 9,668 interns from Central Asia in various fields between 1992 and 2017. Many of these graduates currently hold high-ranking government offices up to ministerial and vice-ministerial levels.¹⁶ The humanitarian dimension of Japan's assistance further increased as Tokyo has progressively readjusted its contribution, for instance via grassroots projects, so that it directly improves the human development of the population rather than simply dealing with the elites as intermediaries.

16. F. Kishida, "Kazakhstan, Japan Mark 25 Years of Diplomatic Relations," *Kazinform*, 30 April 2017, available at: www.lenta.inform.kz.

Furthermore, border management, counter-terrorism and peace and stability in the wider region including Afghanistan rank equally high, although their salience has mildly diminished in recent years as compared to the immediate aftermath of 9/11. Historically, Japan's diplomatic approach toward the region evolved in accordance with the perceived imperatives of the Japanese political elite's security thinking in relevant periods, such as adjusting to the changing post-Cold War international structure, tackling the issues of human security, addressing post-9/11 international terrorism, and dealing with China's rise.

Koizumi's tenure featured a reinforced cooperation with the United States after the events of 9/11, which included 'burden sharing' in Afghanistan and related securing of neighbor Central Asian states. Japan's Central Asian policy became then a part of dealing with distant threats. Ensuring 'global security' and combating terrorism had its 'human' dimension – necessity to stabilize potential or actual failed states that may harbor al-Qaeda's operatives. The key perception in such 'global security' facet was that globalization has made Japan vulnerable to threats and effects from even situations in "distant regions" and hence the country needs to be a global actor in order to protect its interests. In 2001, for instance, the Japanese government provided more than USD20 million of urgent grants to Uzbekistan and Tajikistan in order to contribute to political stability and economic development of these countries with a fragile domestic situation.¹⁷

As in many other regions worldwide, Japan's contribution in this field concerned primarily soft security aspects. In Central Asia, Japan *de facto* became an important external provider of a social 'safety net' by improving health and education-related infrastructure via the *Kusa No Ne* (grassroots aid) programs and funding various UNDP-run programs, including anti-extremism funding).¹⁸ The rise of the Shanghai Cooperation Organization (SCO) in the early 2000s initially generated a cautious attitude in Japan, but this risk-averse approach subsided with time to a neutral position. Furthermore, in 2017, the Asian Development Bank's officials said that the bank's Central Asian connectivity and trade facilitation program CAREC was open to cooperation with a wide range of external stakeholders, including the SCO.

17. A. Kawato, "Japan's Strategic Thinking Toward Central Asia", in: G. Rozman *et al.* (eds.), *Japanese Strategic Thought Toward Asia*, New York: Palgrave, 2007.

18. "Kazakhstan usilil eksportnuyu ekspansiyu v Yaponiyu" [Kazakhstan increased its export expansion to Japan], *Kapital.kz*, 2/3/18, available at: www.kapital.kz; "Yaponiya predostavit Tajikistanu okolo \$442 tys. na realizatsiyu sotsialnykh proektov" [Japan to Provide Tajikistan with about USD442,000 for the Implementation of Social Projects], *Avesta*, 20 December 2018, available at: www.avesta.tj.

Misperceptions about Central Asian countries and Afghanistan

Judging by discussions between Japanese and Central Asian experts, the role of Afghanistan remains a source of misunderstandings in the relationship. Namely, according to Central Asian experts, some Japanese officials still inadequately perceive and frame the Central Asian region through the lens of the Afghanistan issue.¹⁹ This view is not shared and often even opposed in post-Soviet Central Asia mainly for two reasons. Firstly, the countries of the region would like to dissociate themselves from Afghanistan for the outer world to decrease already sufficiently risk-averse stereotypes of the region as source of insecurity, instability and threat rather than a place of opportunities. Secondly, the association with Afghanistan and Pakistan sounded reminiscent of the Bush administration's concepts of Greater Central Asia and of the coupling of Central Asia with South Asia, as manifested in the US Department of State organigram and in regional projects such as CASA-1000 or TAPI. However, many in post-Soviet Central Asian countries were apprehensive of these externally-inspired ideas, since, as described above, they aspire to benefit from external perceptions distinguishing them from Afghanistan and to avoid risks stemming from a potential closer coupling with southern neighbors.²⁰

On the other hand, experts in the Japanese foreign policy community explain the persistence of that Central Asia-Afghanistan association by, firstly, Central Asia's exposure to pan-regional security challenges reinforced by Afghanistan (for instance, terrorism, cross-border crime and drug trafficking) and, secondly, by Central Asia's landlocked predicament, for which a southern route towards the Indian Ocean would provide a solution. As can be evidenced from the ADB CAREC map (see Appendix 1), Japan-sponsored connectivity initiatives for the region placed an emphasis on the development of not only latitudinal but also meridional corridors, including connections to the Indian Ocean via Afghanistan and Pakistan.²¹

19. This is akin to increasingly risk-averse perception of the region by Japanese general audience in the aftermath of 9/11 and the killing of Japanese researcher Yutaka Akino in Tajikistan in 1998. According to experts, 'the Stans' were often conflated with Afghanistan and Pakistan as they would always be on the regional map shown in the media during reports from the ISAF operations.

20. Although the ideas of improving Central Asia's international connectivity via, inter alia, southbound routes were present in Japanese expert community already before the commencement of ISAF operation, their present persistence appears to be largely driven by inertia of US-proposed coupling of Central and South Asia, even though this strategic thinking seemed to be waning in Washington in the aftermath of the 2014 troop reduction.

21. See, for instance, "New Silk Road Foreign Ministers' Meeting", Remarks by H. Kuroda, ADB President, at the German House, New York, 22 November 2011, available at: www.adb.org; F. Z. Sumar, Deputy Assistant Secretary, Bureau of South and Central Asian Affairs, "Remarks, 13th Anniversary CAREC Ministerial Conference", Bishkek, Kyrgyzstan, 6 November 2014.

Nevertheless, according to Central Asian experts, for instance from Kazakhstan, although southbound routes are potentially interesting, currently the preferred corridor routes are west-bound and southwest-bound via the Caspian and Black Seas – which are also expected to benefit China, Russia and Europe. In other words, Tokyo may have to be more considerate in its general diplomacy and infrastructural projects of Central Asia's perspective regarding the region's ties with Afghanistan. At the same time, the problem here is also of wider international scale: sanctions over Iran are preventing it from joining the ADB's connectivity projects that could provide alternative longitudinal corridors to the Afghanistan-Pakistan route. The Iranian port of Chabahar, which Japan is helping India to develop, obtained a waiver from US sanctions and could in the future be connected to such railway corridors as Kazakhstan-Turkmenistan-Iran and Kazakhstan-Uzbekistan-Turkmenistan-Iran. However, although these corridors are promoted both by Central Asian states and external parties, such as India, their commercial viability has not yet become a *fait accompli*.

Central Asia's localization in Japanese government bodies varies with each institution. MOFA continues locating the region within Europe; the government's ODA arm, Japanese International Cooperation Agency (JICA) treats Central Asia as Asia, whereas METI places it together with Russia apart from either Asia or Europe. Inside the ADB, Central Asian operations are run together with West and South Asia. Many Japanese diplomats served in Central Asia prior to appointments to higher posts in Russia. Although it is natural that each bureaucracy follows its own structural arrangement, Central Asia is still not entirely Asian in Japanese officialdom – at least not in the way Southeast Asia would be, for instance. While this corresponds to Central Asia's much smaller relative economic importance and depth of historical ties for Japan as compared to Southeast and South Asia, Central Asia's treatment as a residual post-Soviet region may pose the problem of coherence and relevance in the context of growing regionalization between Central Asia and other Asian sub-regions.

Economic Cooperation: Resource Diplomacy and Risk Perceptions

Currently, the most salient features in Japan's Central Asian diplomacy appear to be economic and 'resource diplomacy' (*shigen gaikō*) and upgrade of regional infrastructure, including the promotion of Japanese infrastructure exports, followed by human resource development and other development assistance, the importance of which should not be underestimated.²²

Abe's premierships – "Top Sales" diplomacy²³

Prime Minister Shinzo Abe warrants a dedicated focus not only due to his incumbency (extended until 2021) at the time of preparing this analysis, but also due to a particular footprint he and his foreign policy team have left on the Central Asian vector of Tokyo's diplomacy.

In a rare move for a potential successor to the Japanese prime minister, Abe had mentioned Central Asia, albeit marginally, already in his 2006 manifesto book *Utsukushii kuni-e* [Toward a Beautiful Country]. The reference was to the strategic importance of the region and its resource endowment. It was also made in the same chapter where Abe stressed the need for Japan's partnership with India and Australia. By forging partnerships with Canberra and Delhi, Abe activated new lines of external balancing vis-a-vis China – a policy line that has ultimately evolved into his Indo-Pacific Strategy of the second Abe premiership.²⁴

As early as June 2014, Abe had been considering a visit to Central Asia, which ultimately materialized in October 2015. Abe's visit became the second ever by a Japanese prime minister since Koizumi's 2006 trip and

22. Interviews with Japanese and Central Asian experts, St. Petersburg, 2018; N. Nihei (2018), *Kirugisu no jinzai ikusei* [Kyrgyz Human Resource Development], 27 September 2018; available at: www.jp.undp.org.

23. "Top Sales" is a Japanese English term designating the approach to sealing large-scale international commercial deals through agreements by top executives or national leaders. Communication with a Japanese expert, St. Petersburg, 2018.

24. S. Abe, *Utsukushii kuni-he* [Towards a Beautiful Country], Tokyo: Bungeishunju, 2006, p. 161.

included all five countries, while more Japanese officials have visited Central Asia in 2013-2016 than in the decade preceding Abe's return to power. Of three METI heads who visited Central Asia (Akira Amari, Yukio Edano and Toshimitsu Motegi), two were members of Abe cabinets: Amari in 2007 and Motegi in 2014.

Although Abe delayed his tour of Central Asia until October 2015, he boosted resource diplomacy by dispatching METI head Toshimitsu Motegi to the region in 2014. Motegi was only the third ever METI head to visit Central Asia and the second ever to visit Uzbekistan, since Amari's 2007 trip, also organized during Abe's tenure (2006-2007). In Kazakhstan, Motegi marked a shift to higher value-added projects in the Japan-Kazakhstan 'energy entente'. He signed a memorandum on nuclear power cooperation with Energy Minister Shkolnik, and confirmed future cooperation in resources and energy, which was expected to include oil and the construction of a nuclear power plant. The Uzbekistan leg of Motegi's trip was somewhat more symbolic and declaratory as it yielded fewer tangible results, apart from traditional business committee meetings and agreement on information exchange. Motegi met with three key officials who have been traditional local counterparts for Japan for over a decade: President Karimov, Finance Minister Azimov and Foreign Economic Relations Minister Ganiyev.

Abe's 2015 trip resulted in over \$27 billion worth of signed contracts stressing both the promotion of Japan's exports and the pan-Asian span of Sino-Japanese infrastructure rivalry. The breakdown of this sum by country is as follows (in descending order): Turkmenistan – US\$18 billion (mostly oil and gas and related infrastructure), Uzbekistan – US\$8.5 billion (oil and gas), Kazakhstan – US\$1.1 billion (agriculture, machine-building, automotive infrastructure), Kyrgyzstan – US\$120 million (airport and motorway upgrade), Tajikistan – US\$7.5 million (water and social infrastructure).²⁵

Abe reiterated his call for 'open regionalism' in Central Asia, similar to synonymous appeals made by foreign ministers Kawaguchi and Asō a decade earlier, this time clearly eyeing China. Abe's 2015 visit coincided with a similar tour of the region made by Secretary of State John Kerry. Although some Russian experts interpreted these two visits as a coordinated allied action, this conclusion appears far-fetched, given the long preparation of

25. Experts note, however, that at least in the case of Turkmenistan, the large-scale deals were prepared well in advance of the prime minister's visit.

Abe's visit.²⁶ Moreover, Kerry inaugurated the C5+1 meeting format (five Central Asian states plus the United States), in all likelihood inspired by the Central Asia Plus Japan dialogue and showing Washington's diplomacy in Central Asia can follow Tokyo.

Although, as the next section will explain in greater detail, Central Asia has a limited appeal as a consumer market for Japanese corporations, the region is still important as a destination for infrastructure exports and in terms of resource procurement. In that regard, Abe's Central Asian diplomacy is influenced by his close rapport with Japanese big business. Namely, according to Japanese respondents, present-day Japanese diplomats display much less reluctance to support the Japanese private sector's projects overseas than they have in the past decade.²⁷ At the same time, according to some experts, a significant weight of officials from METI in the Japanese prime minister's office resulted in an imbalance in favor of the economic aspects of foreign relations and to the detriment of political aspects.²⁸

Last but not least, Abe's leadership team technically happens to have arguably the largest number of officials with a first-hand experience or at least some knowledge of Central Asia – a rarity for most Japanese politicians and bureaucrats. Finance Minister and Deputy PM Taro Aso has visited the region during his tenure at the helm of Economic Planning Agency and has been closely involved with the Japan-Uzbekistan parliamentary league. Key members of Abe's foreign policy team, Shotaro Yachi and Nobukatsu Kanehara had been involved in the drafting of the concepts of Arc of Freedom and Prosperity and Corridor of Peace and Stability, announced by Taro Aso during his term as MOFA's head (2005-2007). The Bank of Japan Governor Haruhiko Kuroda served as the ADB's president after Tadao Chino and was involved in the development of the CAREC program. The incumbent First Lady of Japan, Akie Abe, has also been involved in cultural diplomacy missions in Central Asia before and during Shinzo Abe's second premiership.²⁹ That said, the current duties of many of these officials imply that they hardly have availability for Central Asian affairs.

26. A. Knyazev, "Bols'haya igra v Tsentral'noy Azii idet s peremennym uspekhom" [The Great Game in Central Asia takes place with intermittent success], *Nezavisimaya gazeta*, 16 November 2015, available at: www.ng.ru.

27. Interview with a Japanese expert, St. Petersburg, 2018.

28. Interview with a Japanese expert, Tokyo, 2018.

29. Interview with an Uzbek expert, Tashkent, 2011.

The priority on resource diplomacy

In terms of economy, the structure of trade largely follows Japan's relations with other emerging countries of Eurasia: exports from Japan focus on high valued-added products, such as transport equipment, vehicles, and various types of machinery, while imports to Japan are largely represented by commodities and textiles (ferroalloys, nonferrous metals, crude oil and petroleum, yarn, fabrics, etc.)

Energy security is a matter of national interest that Tokyo has proactively and consistently handled both during and after the Cold War, let alone the pre-World War II period. Given the extreme scarcity of its own resources and consequent reliance on foreign supplies, Japan has attached a particular priority to ensuring its energy needs after the 1973 oil crisis. Resource diplomacy (*shigen gaikō*) became a term openly and frequently used by the Japanese government and pundits.³⁰ The government has further undertaken global efforts in the post-Cold War period promoting new opportunities in post-socialist countries, including Central Asia.

The most recent example of *shigen gaikō* is Prime Minister Abe's vigorous foreign travel to numerous resource-rich countries from Mozambique to Mongolia early into his second premiership (2012-present). Abe's visits aimed at upping Japan's international profile and dealing with the echo of the 3/11 Fukushima disaster. However, Abe's trip to Central Asia only took place in October 2015. Although this delay indicated the region's peripheral importance, it also paradoxically confirmed that Central Asia still mattered, as Abe was only the second ever Japanese prime minister to visit Central Asia after Koizumi's 2006 trip. The aggregate value of deals struck during Abe's tour exceeded Japanese cumulative investment in Central Asia since 1991. The visit's agenda also highlighted infrastructure finance and natural resources as Central Asia's twofold importance for the Abe-era Japan.

Throughout the entire history of its relations with post-Soviet Central Asia, Japan's interest towards the region's plentiful mineral endowment has been acknowledged openly and consistently as a key rationale for its diplomacy both by official MOFA publications, such as Japan's Diplomatic Blue Books, and by scholars.³¹ The cooperation between Japan and Central Asia countries in the exploration of oil and natural gas has intensified in the

30. "Abe seiken susumu shigen gaikō, Mekisiko to ha sekiyu gasu kaihatsu" [Abe government's advancing resource diplomacy – oil and gas development with Mexico], *Nikkei Shimbun*, 26 July 2014.

31. MOFA Diplomatic Blue Books (2007-2014); K. E. Calder, "Japan's Energy Angst and the Caspian Great Game", *NBR Analysis*, Vol. 12, No. 1, 2001.

1990s and attracted considerable media attention earning clichés such as “The New Great Game”, sometimes validated by METI officials.³²

The soar in commodity prices in the 2000s, known as “commodity boom” or “commodity super-cycle”, spurred Japan to further diversify both its energy mix and its supply structure. Toward the mid- and late 2000s, it was Central Asian uranium ore and rare earth metals (REM) that shifted Japan’s focus from hydrocarbons. In parallel, differences in Central Asia’s economic development and governance models made the Japanese companies shift their preferences from Uzbekistan to Kazakhstan. This trend can be exhibited in the marked prevalence of Kazakhstan in trade and investment statistics (see Table 1 and Appendix 2). In 2018, the volume of bilateral trade between Japan and Kazakhstan reached US\$2 billion, growing by 54% year on year.

In retrospect, Japan’s development of REM cooperation with Central Asian countries, especially Kazakhstan, at that time improved Japan’s procurement security by diversifying its supply geography. Main Japanese-Kazakh agreements in that field were reached before the 2010 temporary suspension of Chinese REM exports to Japan.

Nevertheless, direct procurement was not the sole purpose of Central Asia resources for Japan – especially as it gradually became clear that the difficulty of hauling commodities to Japan was a long-term issue. On the one hand, Japanese companies saw a commercial opportunity in exporting high added-value technologies to resource-rich countries. On the other hand, these fossil riches were viewed by Japanese development officials as a source of prosperity for Central Asian countries in their transition to a market economy. Japan came in not only in extracting the resources for itself, but also in doing what it does best: providing competitive know-how, infrastructure and environmentally-friendly technologies for extraction and commercialization, including export. Besides, whether consciously or unconsciously on behalf of Japanese officials, Japan-funded or Japan-inspired infrastructure projects improved the larger international accessibility of Central Asian commodities, benefiting not only Japan but other consumers of raw materials. Still, some Japanese officials with Central Asian expertise and a MOF perspective characterized Tokyo’s resource diplomacy in the region as belated and insufficient.³³

32. J. Ferguson, *Japanese-Russian Relations 1907-2007*, London: Routledge, 2008, 148; M. Hisane, “Japan Joins the Energy Race in Central Asia,” *The Asia-Pacific Journal*, Vol. 4, No. 8, August 2006, available at: [www/apjif.org](http://www.apjif.org); Z. Avagyan, “Novaya bol’shaya igra: komu dostanetsya Tsentral’naya Aziya?” [New Great Game: who will Central Asia go to?], *Rex*, available at: www.iarex.ru.

33. Interview with a former Japanese ambassador to Uzbekistan and Tajikistan, Tokyo, 2012.

Japanese business risk aversion and limited commercial success in Central Asia

Japan's modest business expectations

In terms of the commercial potential and production prospects Central Asia remains of modest attractiveness to Japanese companies for several reasons. The region's overall population is less than 70 million, which is significantly lower than the most populous Asian consumer markets. Central Asia also has a comparatively low purchasing power, while customs and other barriers are stringent. The localization level of Central Asian investments made by Japanese producers is also low, which means that Japanese products are merely finished, assembled and polished in the region, using actual parts and components manufactured elsewhere.³⁴

In the late 2000s, Kazakhstan stood out as an exception to the rule in terms of purchasing power and a comparatively friendlier business environment, which resulted in growing interest from Japanese companies. Nonetheless, it is still a small market of seventeen million inhabitants and an exception confirming the rule in the wider regional context. Much smaller in terms of population, six-million Kyrgyzstan and nine-million Tajikistan suffer from severe poverty and civil instability.³⁵ Turkmenistan, with a population of six million, still operates in a closed business climate.

Uzbekistan is a special and particularly illustrative case. In the 1990s, this country of 32 million (as of 2018) was considered the best regional business prospect due to its strong economic growth. Initially, even Uzbekistan's doubly-landlocked position did not preclude Japan from viewing it as the key country in the region, since the prospect of exports via the Iranian port of Bandar-Abbas appeared feasible. In the 2000s, however, the external environment changed, as mounting international pressure on Iran and conflicts in the Middle East endangered Central Asia's export

34. Given that post-Soviet markets share many consumer characteristics, it was easier, for instance, for Japanese carmakers to locate manufacturing in Russia and export it to Central Asia rather than do the opposite. In 2010, this situation changed after the establishment of the Customs Union of Belarus, Russia and Kazakhstan. It was not until 2013 that Toyota launched its first car production line in Kazakhstan.

35. For instance, the first joint venture with Japanese capital was established in Tajikistan as late as 2011. See K. Motomura, "Tekushaya situatsiya v Tadjikistane" [Current situation in Tajikistan], *Mesyachnyi bulletin' obsledovaniya situatsii v Rossii i NNG* [Monthly bulletin of monitoring the situation in Russia and the NIS], December 2011, p. 2.

routes, including Bandar-Abbas.³⁶ Furthermore, despite the investor-friendly rhetoric, the Uzbek business climate gradually deteriorated because of remaining tight currency controls and the repercussions of domestic clan rivalry over investors' property rights, which significantly hindered the operations of foreign companies. For instance, Mitsui was the flagship of Japanese business in Uzbekistan since the early 1990s, both preserving its heritage of Soviet-era operations and actively building a new presence. Yet, by the late 2000s-early 2010s, the unfavorable economic environment in Uzbekistan made the company shift its primary regional focus toward Kazakhstan.

Furthermore, Uzbekistan and Japan revealed a mismatch in financing approaches in the mid-2000s, as Uzbekistan increasingly preferred direct equity investment and called upon Japan to adjust its approach accordingly.³⁷ Japan's priority remained the export of debt capital, as it considered direct investment too risky due to weak protection of property rights. Besides, in the late 2000s-early 2010s the government of Uzbekistan reduced the scope and scale of previously abundant guarantees, thus increasing risk aversion on the Japanese side.³⁸

However, Abe's economic diplomacy and the improvement of Uzbekistan's business environment under President Mirziyoyev created opportunities for potential galvanization of Japanese business presence in Uzbekistan. So far, these are focused on electric power, petrochemicals and gas chemicals, and light industry, but also affect finance and telecoms. For instance, all three major Japanese banking groups participated alongside Chinese and Korean financial institutions in the USD2.3 billion project financing for the Uzbekistan GTL (gas-to-liquid) project.³⁹ The supply of turbines and other power-related technology for Uzbek energy systems is another interest for Japanese business. Outside the energy field, SMBC signed a USD100 million loan agreement with the National Bank of Uzbekistan for Foreign Economic Activity to fund projects on the expansion of data transmission and internet speed, implemented by Toyota Tsusho. Whether these projects indicate a comprehensive improvement in overall Uzbek-Japanese business ties, however, remains to be seen.

36. In addition, after Jiang Zemin settled border issues with Central Asia and Hu Jintao replaced him at China's helm, Beijing joined the regional power rivalry with a more competitive posture than in the 1990s.

37. Interview with Uzbek expert, Tashkent, June 2011.

38. Interview with a major Japanese trading company, June 2011.

39. "US\$2.3 Billion Worth of Uzbekistan GTL Project Finance Deals Inked," *Tashkent Times*, 16 December 2018, available at: www.tashkenttimes.uz.

Financing matters significantly hindered Japan's cooperation with Turkmenistan, since Turkmen companies tended to offer payment in kind (as products) rather than cash for numerous projects. For Japanese banks and corporations, this kind of settlement would slow down the process of disbursement of funds.⁴⁰ By 2009, high levels of corruption in Turkmenistan resulted in the closure of Mitsui's office.⁴¹ Nonetheless, the company continued to deliver technology supplies, such as the construction of a sulphuric acid production facility, which involved financing from JBIC, insurance from NEXI and support from Sojitz. To date, large Turkmen projects of Japanese companies were focused on petrochemical and fertilizer technologies: construction of ammonia and urea plants in Lebap and Mary regions, plants in the Balkan region for production of polyethylene at the Turkmenbashi oil refineries, urea fertilizers in Garabogaz, and polyethylene and polypropylene in Kiyanly.⁴²

Japanese business's risk aversion

Japan's limited risk 'appetite' for Central Asia may be contrasted with successful Japanese business operations in the region of Middle East or with the cases of successful expansion of Chinese and South Korean business operations in Central Asia despite the aforementioned hindrances. There are several justifications provided by Japanese interviewees that account for the limits of Japanese commercial success and are derived from differences in corporate cultures and markets of origin.

All four instances of major Caspian upstream hydrocarbon projects featured the same Japanese companies (METI-backed INPEX, also operating in neighbor Iran, and, with one exception, Itochu), which operated as part of an international consortium – unlike most Chinese rivals.⁴³ In the latest materialization of Japan-Central Asian resource cooperation, the

40. R. Kanayama, "Investitsii yaponskikh kompanii v energeticheskii sektor TsAR" [Investments by Japanese companies in the Central Asian region's energy sector] in: S. V. Zhukov (ed.), *Central Asia: Role in the Restructuring of World Oil and Natural Gas Markets*, Moscow: IMEMO, 2013.

41. Diplomatic cable, US Ashgabat embassy, TURKMENISTAN: JAPAN HOPES TO REGAIN MOMENTUM IN COMMERCIAL RELATIONS, Identifier: 09ASHGABAT1286, 2009-10-09, available at: www.wl.1-s.es.

42. "President: Turkmenistan welcomes Japanese investments," *Trend*, 11 January 2019, available at: www.en.trend.az; A. Kravtsov, "Novyi tsekh po proizvodstvu sernoy kisloty," *Turkmenistan Zolotoy Vek*, 5 January 2014, available at: www.turkmenistan.gov.

43. INPEX Corporation is a Japanese oil company, whose largest shareholder is METI. Itochu is one of the largest Japanese trading houses (*sōgō shōsha*) with interests across various industries. Its approach to Central Asia was identified by the respondents as relatively less risk-averse than that of its Japanese peers. The participation of Japanese companies in Caspian oil projects included Kazakhstan's Kashagan oil field (NCOC), Azerbaijan's Azeri-Chirag-Gunashli oil field and the Baku-Tbilisi-Ceyhan pipeline, and the CentGas consortium in Turkmenistan – the predecessor of the TAPI pipeline project. INPEX also has a history of involvement in Iran's Azadegan project.

US\$20 billion gas-processing plant in Turkmen Galkynysh, Japanese companies (JGC Corporation, Itochu, Chiyoda and Sojitz) are also in a consortium with Turkish counterparts Çalyk Holding and Rönesans Endustri Tesisleri.⁴⁴ This stable preference for consortia and international partnership stemmed from the intention to share risks and development costs.

Table 3 shows the difference in the order of magnitude between Japanese and Chinese business presence in Kazakhstan and Uzbekistan. Although it may be tempting to attribute the striking contrast to a zero-sum-game perception of Japan's "losses" in Sino-Japanese competition, the difference is rather due to Central Asia's comparatively greater importance for China than for Japan, relatively higher compatibility of respective business cultures, and above-described changes in risk appetite of Japanese corporations.

Table 3. Comparison of Japanese and Chinese business presence in Kazakhstan and Uzbekistan (as of May 2018)

Foreign companies in Kazakhstan and Uzbekistan	Japanese	Chinese
<i>In Kazakhstan</i>		
Legal entities, subsidiaries and representative offices, total	77	>1,200-2,500
Of which joint ventures	23	>500
<i>In Uzbekistan</i>		
Companies with foreign participation, total	17	786
Of which 100% foreign-owned	7	95
Representative offices	13	73

Source: Uzbek Foreign Ministry; Kazakh Foreign Ministry, tengrinews.kz, 365info.kz, spot.uz.

According to the data of the State Statistics Committee of Uzbekistan, reported by *Trend*, although the number of companies with foreign capital in Uzbekistan increased in January-November 2018 by 1,863 firms, Japan

44. "Consortium Offers Up to \$20bn for Turkmenistan Gas Project," *Nikkei Asian Review*, 29 February 2016, available at: www.asia.nikkei.com.

did not feature prominently. 391 newly-founded companies involved capital from Russia, 329 – from Turkey, 302 – from China, 222 – from Kazakhstan, and 153 – from South Korea, with the remainder split between Afghanistan, India, Germany, Ukraine, and Azerbaijan.⁴⁵

Table 4 compares the volumes of Japanese, Chinese, South Korean and Russian two-way trade with the region's major economies – Kazakhstan and Uzbekistan.

Table 4. Japan's trade and investment presence in Kazakhstan and Uzbekistan, as compared to China, Russia and South Korea

2018 trade volume, US\$ million	Kazakhstan	Uzbekistan
Japan	2,000	700
China	11,650	6,428
South Korea	3,900	2,137
Russia	17,600	5,731

Sources: 365info.kz, *Uzbekistan's State Committee on Statistics*, regnum.ru, *Ferghana News*, *Kazakhstan's Committee on Statistics*.

In the first two decades of the relationship, some Japanese companies in Central Asia exhibited a relatively risk-taking attitude – for instance, Itochu or Sumitomo, while Mitsubishi and Mitsui demonstrated a stronger risk aversion.⁴⁶ During the early stage of Japan-Kazakhstani nuclear cooperation in 2004-2006, it was Sumitomo's initial decision to invest in uranium development in Kazakhstan that triggered subsequent help from the Japanese government. Government support manifested itself in the attraction of JBIC and NEXI, a risk insurance body, facilitating the ability of other Japanese companies to share Sumitomo's risk.⁴⁷

While these nuances in the risk perceptions of individual Japanese companies are noteworthy, all of them still harbored a generally high risk aversion toward Central Asia. This can be evidenced by the fact that most

45. F. Dolukhanov, "Uzbekistan Reveals Stats on Companies with Foreign Capital," *Trend*, 13 December 2018, available at: www.en.trend.az.

46. Sumitomo demonstrated a great degree of initiative as early as 1998, proposing an integrated regional management system of transport infrastructure. O. Reznikova, "Tsentral'naya Aziya i Aziatsko-Tihookeanskiy region", 1999.

47. Interview with an officer of a major Japanese company, Almaty, 2011.

major Japanese companies in the region are still operating in the form of representative offices rather than full-scale branches, which implies more modest liability and limited capabilities. The choice for representative offices is also explained by relatively modest business volumes for Japanese companies in the region. This structural feature has been further complicated by the lack of traditional links between the manufacturing and financial arms of Japanese companies in Central Asia, as Japanese private financial institutions had very modest presence in the entire region, except in Kazakhstan.⁴⁸ The 2016 change of leadership in Uzbekistan and resulting, even if partial, liberalization of financial regulation could serve as an encouragement, although a lot will still depend on the government's actions.

As the pace of market reforms in the region became stalled in the 2000s, the Japanese corporate presence primarily focused on state-driven aid projects and commodities.⁴⁹ Whatever the commodity, however, at the time it still required new infrastructure to be delivered from Central Asia to Japan and East Asia: all roads, railways and pipelines of these landlocked republics led to the “Third Rome”, i.e. Russia, their former imperial metropolis. From the 1990s onward Japan has been strongly contributing to the upgrade of Central Asia's transport and communication infrastructure to facilitate and diversify the region's export routes from predominantly northwest-bound directions to the east and south. Whilst one cannot rule out the pragmatic mercantile incentive of Japanese corporations improving their access to Central Asia mineral riches, it was accompanied by a less pragmatic and more idealist or functionalist considerations of the Japanese government in its financial assistance.

Modest Japanese investments in the region

While Japan is one of the largest investors in Central Asian countries, they rank rather marginally for Japan as an investment destination. For instance, in JETRO's statistics regarding Japan's outward direct investment (ODI), Central Asia is not even expressly mentioned. Table 1 above demonstrated that the largest stock of Japanese ODI in Central Asia was accumulated in Kazakhstan (over US\$5.4 billion as of end 2015, US\$ 5.9 billion as of end 2018) and Uzbekistan (US\$3.5 billion as of late 2015). This is by one or two orders of magnitude lower than Japan's ODI stock in major Asian countries and comparable with such recipients of Japanese investments as New Zealand or Saudi Arabia. Apart from the challenges described above, this difference is attributable to the fact that, unlike Southeast Asia, assets in

48. Interview with a former MOF official, Tokyo, 2012.

49. M. Shimoyashiro, “Chūō Ajia keizai zusetu” [Central Asian economy illustrated], *Yūrashia bukkuretto* No. 128, Tokyo: Tōyō Shoten, 2008, p. 60.

Central Asian countries are not closely incorporated in the regional or global value chains of ‘Japan Inc’.

For comparison, the volume of Chinese and South Korean investment in major Central Asian economies is higher, albeit on a comparable level: as of end 2017, the stock of South Korean investment in Uzbekistan was US\$7 billion, while Chinese investment in Kazakhstan was US\$15.7 billion.⁵⁰ Japanese and Central Asian audiences exhibit different attitudes toward this comparatively modest level of Japanese investment in the region. While for Japanese businesses this level is commensurate with the level of Central Asia’s commercial lucrativeness and investment environment, for Central Asians it shows Japan’s insufficient efforts and, as a result, a possible missing out on opportunities to competitors from other countries. In turn, Japanese respondents rebut this criticism by pointing to the fact that the onus to improve Central Asia’s investment attractiveness is on Central Asians themselves. Recurrent perceptions and self-perceptions of Central Asia as an arena of rivalry among external great powers possibly contribute to excessive expectations of Japan’s risk appetite, as those perceptions nominally amalgamate Japan with external powers. However, in reality other regions have a comparatively higher priority on Japan’s investment agenda than Central Asia.

Having said that, the dynamics of economic integration gaining traction within the Eurasian Economic Union harbor a significant potential for Japan’s investment cooperation with Kazakhstan and Kyrgyzstan – both member states of the EAEU. For instance, JETRO officials stressed the implications of the EAEU’s Customs Union for Japanese car makers.⁵¹ Another boosting effect can come from bilateral investment protection agreements signed by Japan with Uzbekistan in 2009 and with Kazakhstan in 2015.

50. Estimates of total Chinese investment in Kazakhstan vary depending on the methodology between US\$15.7 billion and over US\$20 billion. This paper uses the statistics of Kazakhstan’s central bank (US\$15.7 billion for total investment and US\$9.6 billion for FDI). Difference in methodologies and resulting discrepancies also occurs in open sources quoting figures for Uzbekistan, where news outlets and official statements tend to contain more up-to-date figures for than statistics published online.

51. M. Shimoyashiro, “Kanzei dōmei ga jidōsha seisan no oikaze ni” [Customs Union as tailwind for car manufacturing], *JETRO Sensā*, June 2011.

Japan and External Powers in Central Asia: Russia, China and the Belt and Road Initiative

Although Japan's relations with Russia and China, two major Eurasian powers, are regularly examined when analyzing the development of Tokyo's relations with Central Asia, these relationships are actually rarely playing a decisive role. PM Hashimoto's 'Eurasian Diplomacy as Viewed from the Pacific' (1997) was conceived as a region-wide response to Western Europe and North America's new Eurasian policies advanced from the Atlantic. FM Kawaguchi had China in mind when designing the initiative of Central Asia Plus Japan (2004). The Arc of Freedom and Prosperity (2006) concept drew wariness in Beijing and Moscow, being interpreted as a 'containment' or 'encirclement' plot – an intention denied by the concept's Japanese authors. However, direct linkages were rather anecdotal without having a profound systemic impact.

Abe's second premiership was marked not only by a global 'Top Sales' economic diplomacy but also by a charm offensive vis-à-vis Russia. While not making an express reference to its new Russian policy, Tokyo simultaneously sounded out the idea of a Russo-Japanese cooperation over Tajik-Afghan border security. Together with the United Nations Office on Drugs and Crime, Russia and Japan provide training for anti-drug officers in the Moscow region and launched joint projects for Afghan canine teams in Rostov and Kabul. Japanese officials in international institutions also displayed a benign posture toward institutions where Russia plays a central role. In October 2017, when the ADB's President Takehiko Nakao pledged to provide US\$5.5 billion of funding to CAREC over the following five years, he noted the importance of partnering the ADB with a broad range of external partners, including not only the BRI but also the SCO – an organization that Japan previously regarded with suspicion. Furthermore, in 2016 ADB also signed a framework agreement with the Eurasian Development Bank (EDB), led by Russia and Kazakhstan, on co-financing for a total of US\$3 billion (US\$2 billion from ADB and US\$1 billion from the EDB) for projects in Armenia, Kazakhstan, Kyrgyzstan and Tajikistan.

One notable point where Japan and Russia may enter into commercial competition in Central Asia's energy-related infrastructure is the prospect of a nuclear power plant construction in Kazakhstan. This project had been discussed during several visits of Japanese senior officials to Kazakhstan, and Japanese-Kazakh nuclear cooperation has a solid historical foundation. However, the domestic political decision on the plant has not yet been made, given the sensitivity of nuclear issues in Kazakhstan. Furthermore, Japan would be in competition not only with Russia, but also with other rival bidders. For instance, in April 2019, Kazakh Energy Minister Kanat Bozumbayev said that the Kazakh government sent a call for proposals on the nuclear power plant project to the United States, France, South Korea, China and Russia, without mentioning Japan.⁵² Meanwhile, Russia is likely to have an upper hand due to close cooperative ties with Kazakhstan, including the nuclear power field, as well as due to the fact of having secured a similar deal in Uzbekistan, a country with which Japan had close ties including the exploration and purchase of uranium. Moreover, Japan's recent losing record of similar deals in other countries may further weaken its position.

Recent scholarly works convincingly challenged the validity of discourse of China and Japan's mutually exclusive interests in the development of various infrastructure-related projects in Central Asia. Dadabaev (2018) argued that most of Chinese engagements focused on the construction of energy and transportation infrastructure, while Japan's main areas of interest were the maintenance, modernization, and rehabilitation of existing infrastructure. While partially valid with regards to the most recent state of affairs, this view has also to be nuanced with the fact that in the past, Japanese companies attempted to participate in the construction of new infrastructure (for instance, pipelines such as the CentGas/TAPI consortium). Furthermore, Japanese officials both in the government and in the ADB sought to develop trans-regional corridors – both latitudinal and meridional – through multilateral programs such as CAREC and initiatives of Japanese leaders. For instance, in 2009 Prime Minister Aso announced “a new Eurasian Crossroads initiative, a modern-day version of the Silk Road in which north-south and east-west roads and railways come together in Central Asia to unite the Eurasian continent”.⁵³ It is rather the dead-end that Japan hit with these projects (for instance, hurdles to southbound corridors) that made it refocus on existing projects.

52. Dzhamilya Karimova, "Kakie strany pretenduyut na stroitel'stvo AES v Kazakhstane" [Which countries are bidding for building a nuclear power plant in Kazakhstan?], *LSM.kz*, 9 April 2019, available at : www.lsm.kz

53. Turkmenistan: Japanese Development Agency Has Grand Plans: 21 August 2009, ID:09ASHGABAT1060_a, available at: www.wikileaks.org.

Furthermore, the deals struck during Abe's visit to Turkmenistan were also targeting the creation of new oil and gas infrastructure, for instance, the infrastructure associated with the Galkynysh field that Ashgabat repurposed from China-bound supplies to those destined for TAPI.

Although Japanese officials have sent a number of mixed signals regarding the BRI in general, there has not been an explicit response regarding Central Asia. According to experts, while the feeling of competition with China and concurrent discourse are certainly there, actual competitive steps – if any – would be made on a residual basis, with Japan doing what China cannot do. When matching the Belt and Road's appeal with grand designs such as the Free and Open Indo-Pacific Strategy/Vision, Japan has been exhibiting more activity regarding the Maritime Silk Road than the Silk Road Economic Belt, which can be explained by Southeast and South Asia's relatively higher importance for Japan. However, in relation to the volume of Chinese funding to Central Asia, Japan's ODA and investment are limited, which is why Japanese stakeholders seek to focus on the quality aspect – which can be seen through dedicated Japan-run and quality infrastructure-themed events in Kyrgyzstan and Uzbekistan.

Furthermore, Japan is unlikely to conceive or seriously attempt to match China's growing financial and business clout over the region due to a continuing mismatch between Japanese and Central Asian approaches towards deal origination. Tajikistan's reliance on China is reinforced by the perception of less 'predatory' Japanese loans as too hard to obtain. Paradoxically, although Japan often presented itself as a disinterested sponsor for Central Asia's development, this approach was misconstrued in the region as passive and uninterested, while Japanese funding was perceived as too expensive or unavailable. In particular, in the context of a higher supply of funding, decision times for yen loans are viewed in Central Asia as too long in comparison to the Chinese. JICA has been working on shortening those times, although this is still work in progress. According to Japanese respondents, the problem is also that Central Asian governments exhibit short-term thinking when jumping for easily accessible loans that may come with debt-trap conditions. To date, however, Japan's emphasis on the quality of its infrastructural offer – justifying its higher cost – has not yet swayed Central Asia's demand in Japan's favor.

Once again, it is important to perceive Sino-Japanese relations in Central Asia outside the zero-sum-game box. At the level of private sector, there are calls for cooperation between individual companies and business associations. An example of existing Sino-Japanese cooperation in Central

Asia is a consortium for the upgrade of the Atyrau refinery in Kazakhstan.⁵⁴ Furthermore, according to JETRO, many Chinese companies make decisions to move to Central Asia based on commercial rationale rather than due to the BRI. Japanese and Chinese companies encounter similar issues in Central Asia, such as demands for discounts after the signing of contracts or long profit repatriation times in the case of Uzbekistan.

54. M. Shimoyashiro, “Chūō Ajia Ittai ichiro ha oikaze ka” [Is One Belt One Road a tailwind for Central Asia], *JETRO Sensā*, October 2017.

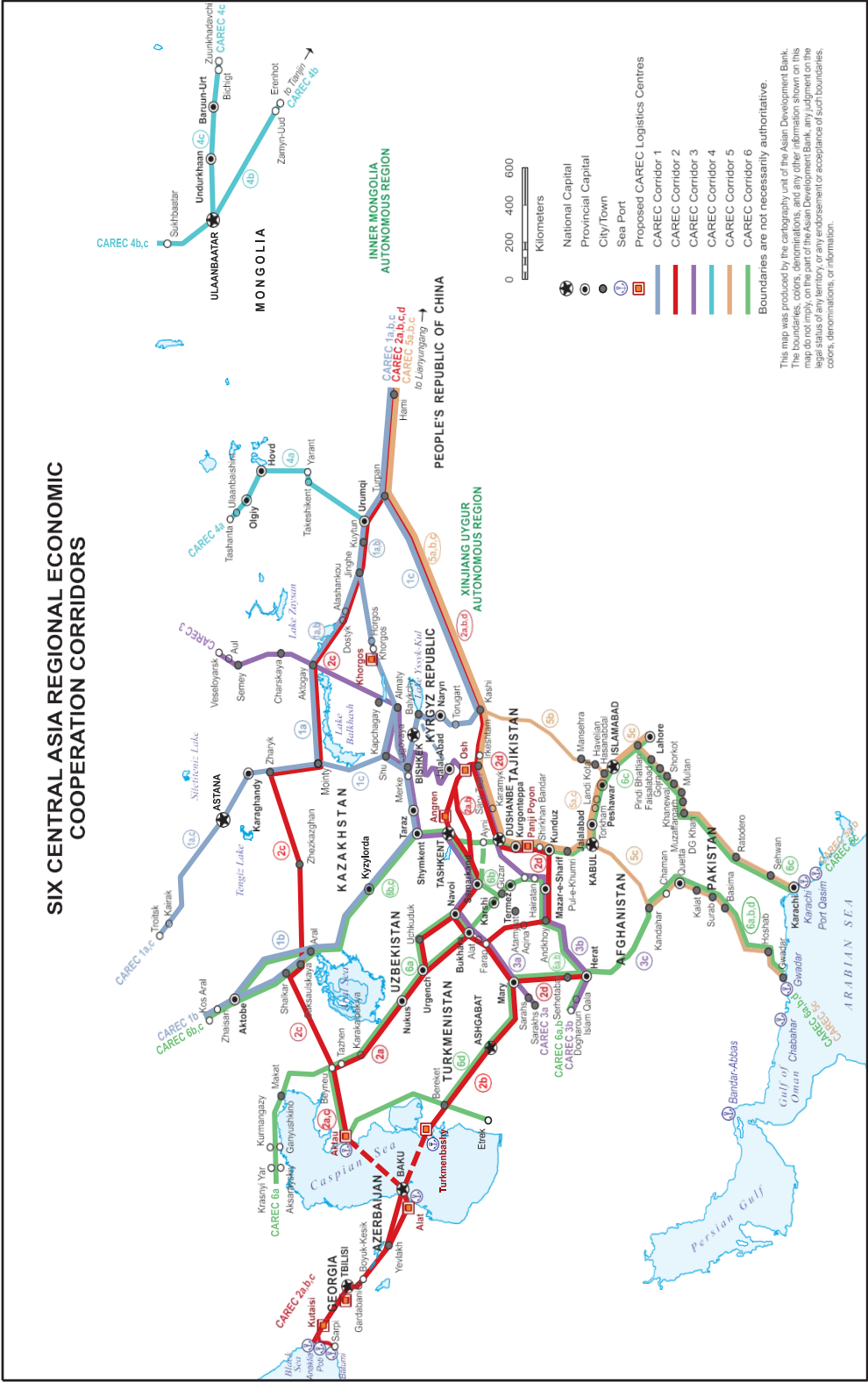
Conclusion

Over the 25 years of its history, the Japan-Central Asia relationship has gone through stages of euphoria, dynamic development, stagnation and maturity. Japan was one of the first external powers to articulate a regional Silk Road narrative and programs as early as in the 1990s. While Moscow and Beijing loomed large in the formulation of Tokyo's foreign policy in Central Asia, and this is especially the case in the context of the Belt and Road Initiative, Japan's presence in the region should not be viewed exclusively through the lens of China's advances. Although Japanese officials have been particularly vocal in regard of the BRI's maritime component, Japan's stance on the continental dimension appears more cooperative or at least non-engaging.

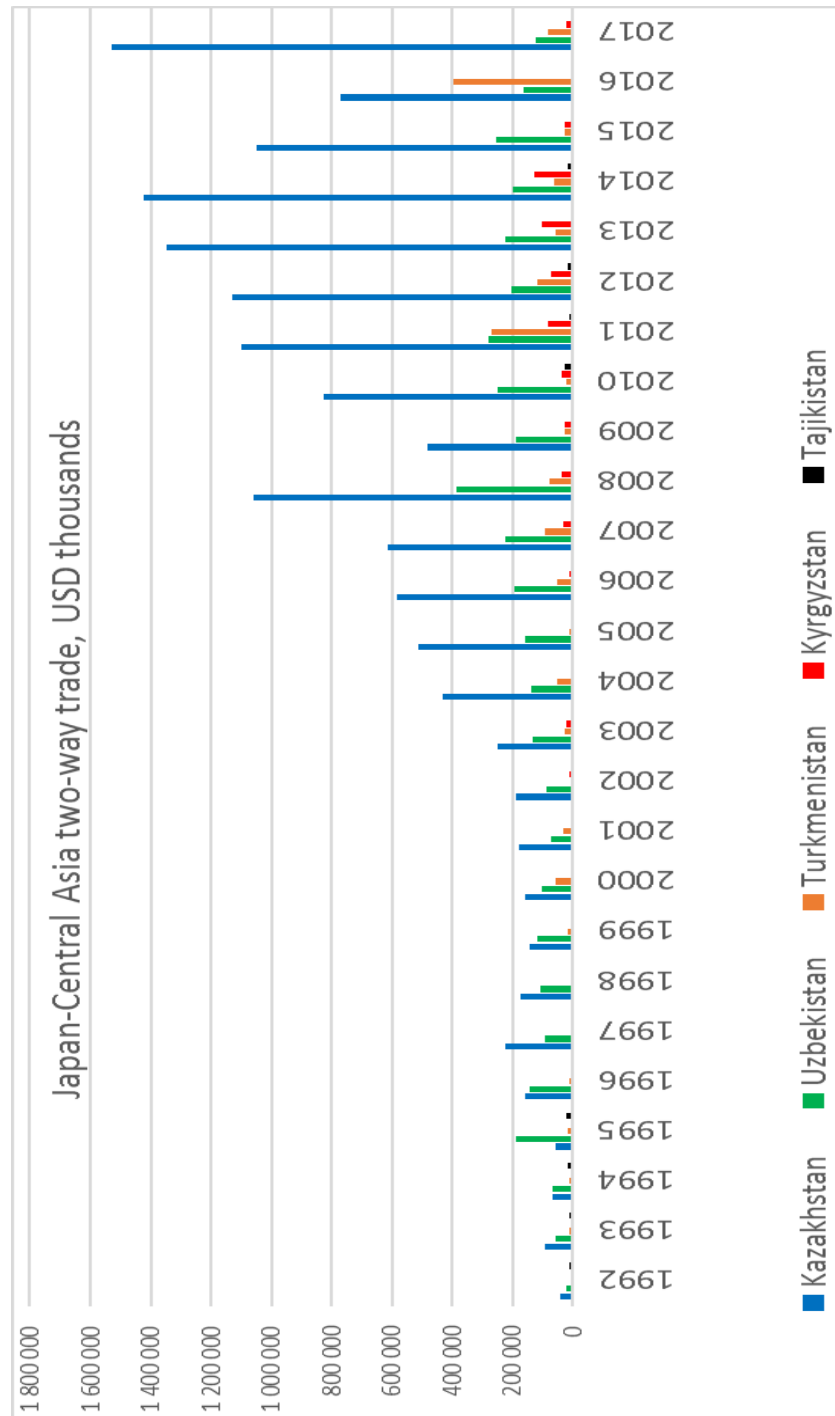
A changing external environment, rising supply-side competition among development sponsors, evolving financial needs and domestic political priorities of both Central Asian states and Japan brought about the lowering of Tokyo's profile in the region and a shift in geographical focus. During Shinzo Abe's second premiership, Japan has made economic and resource diplomacy a priority in overall relationship-building. The export of infrastructure packages is a centerpiece element of that strategy and this is where Japanese companies are the most likely to compete (as well as cooperate) with Chinese counterparts – not only along the familiar lines of quality vs. price, but also in terms of finding understanding with local political and business elites. Differences over Central Asia and relations with China also remain within various policy constituencies in Tokyo, for instance, between MOFA, MOF and METI.

Japan has robust soft-power credentials and boasts an extremely positive image in Central Asia. Importantly, it has trained numerous future leaders of Central Asia, as generations of young professionals and incumbent government officials had received training that either took place in Japan or was sponsored by Japan. Even if less visible at first glance than resource diplomacy, this human resource development is where the Japan-Central Asia relationship may perhaps leave its most lasting mark in the long run.

Appendix 1



Appendix 2



Source: ROTOBO.⁵⁵

55. Roshia NIS Chōsa geppō, June 2018, pp. 82, 84, 86, 88, 90.

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