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Recent Trends in Japanese-Soviet Trade

Gordon B. Smith

Throughout the 1960s and 1970s Japan embarked upon a course of economic cooperation with the USSR. From 1965 to 1982 Japanese-Soviet trade increased more than 12-fold, from \$408 million to more than \$5.5 billion.¹ This rapid expansion of Japanese-Soviet trade resulted from a unique combination of political and economic factors. In contrast, during the past four years, Japanese-Soviet trade has fallen off by more than 21 percent.² This paper analyzes the factors that resulted in the flourishing of Japanese-Soviet trade in the 1960s and 1970s and the causes of the current slowdown in Japanese-Soviet commercial relations and speculates about the future of those relations.

1. Historical Background

Trade and commercial cooperation between the Soviet Union and Japan proceeded on a very modest level from 1917 until the mid-1950s. In 1956 the Japan Cooperative Trade Corporation was established to foster barter exchanges of Soviet timber for Japanese textile goods. The following year Japan granted the Soviet Union most favored nation status and better access to Japanese port facilities. Nevertheless, trade remained at very low levels—less than one percent of total Japanese trade turnover. During the 1950s and 1960s Japanese trade with the USSR was conducted primarily by small and medium-sized firms. Large Japanese trading corporations, which relied heavily on trade with the United States, created dummy firms for handling their trade relations with the USSR, rather than trading directly.

In 1963 coastal trade began between Japanese local communities on the Sea of Japan who were interested in exchanging textiles and housewares for fish and sea products. Eventually this inter-coastal trade expanded to timber and coal exports from the USSR and office equipment and construction machinery from Japan.

In the 1960s, the Japanese steel industry, needing to expand its sources of coking coal, began to lobby for more extensive trade relations with the USSR. A delegation of Japanese steel industry officials visited Moscow in 1965 and established the groundwork for the Japanese-Soviet Economic Committee. Improved economic relations were also being actively supported by Keidanren, the powerful Federation of Economic Organizations.

The Japanese-Soviet Economic Committee was established in 1965 in order to promote large-scale, long-term cooperative projects between the two countries. The efforts of the Committee have resulted in seven joint projects, spanning the years 1968 to 1975 :

1. Soviet-Far East Forest Resources Development Project (1968)
2. Wrangel Port Construction Project (1970)
3. Chip and Pulp Development Project (1971)
4. South Yakutian Coking Coal Development Project (1974)

5. Soviet-Far East Forest Resources Development Project—Phase II (1974)
6. Yakutian Natural Gas Project (1974)
7. Sakhalin Continental Shelf Oil and Gas Project (1975)

It was not by accident that three of the projects centered around energy development. All three energy projects were undertaken during the period 1974–1975, soon after the oil price shocks to the Japanese economy. In addition, all of the joint projects were signed at a time when there was ample investment capital available in Japan and when the political climate was favorable for improving relations with the USSR. As U.S.-Soviet detente began to falter in the later 1970s, Japanese-Soviet trade continued to expand, albeit at a slower rate. The most noticeable result of the changed political climate was that no further joint projects were undertaken, despite repeated expressions of interest from the Soviet side.

After this period of rapid trade expansion, Japanese trade with the USSR grew only by 4.8 percent in 1980. The slowdown in trade that year can be attributed to Japanese support for the U.S.-led embargo in reaction to the Soviet Union's invasion of Afghanistan. The growth rate in Japanese-Soviet trade recovered the following year and by 1982 soared to a record 3.6 billion rubles. (See Table 1).

Table 1. Japanese–Soviet Trade, 1975–1984 (in millions of rubles)

Year	Soviet Exports	%Change	Soviet Imports	%Change	Trade Turnover	%Change
1975	668.9	—	1,253.5	—	1,922.4	—
1976	748.4	+11.9	1,372.1	+ 9.5	2,120.5	+10.3
1977	853.4	+14.0	1,444.4	+ 5.3	2,297.8	+ 8.4
1978	736.1	−13.7	1,583.7	+ 9.6	2,319.8	+ 1.0
1979	944.4	+28.3	1,653.5	+ 4.4	2,597.9	+12.0
1980	950.2	+ 0.6	1,772.6	+ 7.2	2,722.8	+ 4.8
1981	816.8	−14.0	2,212.7	+24.8	3,029.5	+12.3
1982	756.6	− 7.4	2,925.8	+32.2	3,682.4	+21.6
1983	828.5	+ 9.5	2,175.5	−25.6	3,004.0	−18.4
1984	840.0	+ 1.4	2,054.3	− 5.6	2,894.3	− 3.7

Source: Vnesbnaia trgovlia SSSP v 1075–1984 g. (Moscow: Finansy i statistika. 1975–1985.)

In the period 1983 to 1985, however, Japanese-Soviet trade contracted by more than 21 percent. The cause of this decline is clearly attributable to a precipitous decline in Soviet imports of Japanese manufactures and high technology. From 1982 to 1984 Japan fell from being the second leading trading partner of the USSR (behind West Germany) to sixth (behind Germany, Finland, Italy, France, and Britain). Although there was a slight rebound reported in 1985, total trade turnover for that year only recovered to the 1981 level.³

Soviet analysts of Japanese-Soviet commercial relations attribute the recent fluctuations in trade primarily to political factors, such as embargoes.⁴ They argue that

the close proximity and complementarity of technology-rich Japan to the resource-rich regions of Siberia and the Far East should result in expanded trade over time. This paper challenges that assumption arguing that the period of rapid trade expansion between the USSR and Japan during the 1960s and 1970s was the result of a variety of factors that are not likely to be repeated; that high levels of commercial cooperation between the two states was an exception rather than the rule. The underlying causes of the recent trade downturn appear to be more economic than political; they lie in the structural nature of the Japanese and Soviet economies.

2. Soviet Exports to Japan

We begin our examination of the structural causes of the decline in Japanese-Soviet trade with an analysis of Soviet exports to Japan. Soviet exports are dominated by raw materials—more than 80 percent of all exports to Japan come in this form.⁵ The leading export items are timber and forestry products (round timber, rough-sawed lumber, and pulpwood). (See Table 2). Together timber and forestry products account for almost one-half of all Soviet exports to Japan. Energy products (primarily oil and coal) account for another 25 percent of all Soviet exports. The commodity composition of Soviet exports to Japan has remained remarkably stable over the decade. There has been a slight tendency for deconcentration of exports items; nevertheless, in 1984 the top ten exports commodities still accounted for more than 86 percent of the total.

Since 1975 Japanese economic growth has slowed resulting in less demand for raw materials. The sectors most affected by the slower rate of economic growth—energy, steel, and construction—are the same sectors that absorb the vast majority of imports from the Soviet Union.

Table 2. Soviet Exports to Japan, 1975–1984

Rank	1975	%	1982	%	1983	%	1984	%
1	Round timber	27.6	Round timber	25.0	Round timber	25.7	Round timber	24.1
2	Rough sawed	25.1	Rough sawed	20.9	Rough sawed	21.3	Rough sawed	20.1
3	Coal	12.3	Oil & Prod.	13.1	Oil & Prod.	14.9	Oil & Prod.	15.5
4	Cotton fiber	10.6	Cotton fiber	11.6	Coal	8.5	Coal	10.8
5	Oil & Prod.	7.6	Coal	7.7	Cotton fiber	8.4	Pulpwood	3.3
6	Non-ferr. met.	3.1	Scrap metal	2.2	Constr. lumber	2.4	Cotton fiber	3.2
7	Potassium salt	2.1	Constr. lumber	2.2	Scrap metal	2.2	Scrap metal	3.0
8	Constr. lumder	1.6	Chemicals	2.0	Pulpwood	2.0	Chemicals	2.1
9	Minerals, clay	1.3	Pulpwood	1.8	Chomicals	1.9	Fish	2.0
10	Scrap metal	1.0	Whale meat	1.6	Fish	1.7	Potash fert.	2.0
Totals		92.3%		88.1%		89.0%		86.1%

On closer scrutiny, even the issue of proximity between the USSR and Japan does not argue forcefully in favor of long-term trade expansion. The South Yakutian coal fields are located more than 2600 km from Nakhodka, from where the coal is shipped another 1700

km to Yokohama.⁶ Irkutsk in Eastern Siberia is located closer to the Urals than to the Pacific, while the major new oil and gas fields being developed in Northwest Siberia are more than 3000 km closer to Western Europe than to Japan.

The problems of expanding Soviet exports to Japan cannot be fully appreciated by relying solely on aggregate level data, but must be analyzed on a sector-by-sector basis. Below we discuss some of the particular features of the major Soviet export sectors.

Forestry Products :

In terms of volume, the USSR is the second leading supplier of timber products to Japan ; only Canada provides more. Most Soviet timber exports consist of round and rough-sawed logs from the Far Eastern region. Construction grade lumber and plywood constitute a relatively small portion of Soviet exports to Japan due to a lack of the necessary processing equipment. During the 1960s and 1970s timber exports grew rapidly—as much as 12 percent per annum, peaking in 1977 at 8.9 million cubic meters.⁷ Since 1977, timber exports have declined by more than one-third. Recently reports have surfaced in the Soviet press of lumber shortages in the Ukraine, indicating that the opportunity costs of exports of lumber are rising.⁸ The Soviets are also facing greater competition from the United States, Canada, Australia, and New Zealand. In 1985 the U.S. Administration targeted forestry products as one of four sectors in which they intended to urge the Japanese to expand imports to redress the growing trade imbalance.

The future development of the Soviet Union's Far Eastern timber reserves depends to a very considerable degree on the Japanese market. The break-even point in shipping lumber West is Krasnoiarsk in Central Siberia.⁹ If the Japanese market does not recover to 1977 levels, there will be little incentive to develop the Far Eastern reserves. The irony is that much of the early planning for the BAM project as well as the construction of port facilities at Wrangel Bay, Vostochny, and Sovetskaia Gavan' were predicated upon the assumption of expanding exports to Japan of timber and forestry products. Alarmed by the decline in timber trade, both sides engaged in intensive government-to-government discussions in 1983 and 1984 to stabilize commercial relations. In August 1985 the Japan Chip Trading Company reached an agreement to double (to 11.2 million cubic meters) pulp purchases over a 10 year period beginning in 1986.¹⁰ In exchange, the Soviets will buy some Japanese processing equipment. Other projects are currently under discussion.

Coal ;

Soviet exports of coal to Japan peaked in 1976, declined by 50 percent from 1977 to 1981, and since 1981 have recovered to 85 percent of the 1976 level.¹¹ The bulk of Soviet coal exported to Japan comes from the South Yakutia region, which has been in operation since 1940. In 1974 the USSR and Japan signed a joint agreement for the development of coking coal reserves in South Yakutia. Under the terms of the agreement, the Japan Export-Import Bank provided \$450 million in credits and the Soviet Union was to supply six Japanese steel firms with a total of 104.4 million tons of coal over a 20 year period.¹² The Nakhodka terminal was expanded to handle up to 6.2 million tons

of coal per year. The development of the South Yakutian reserves has been hampered, however, by the discovery of a layer of rock approximately 350 meters thick on top of the coal deposit. Japanese hydraulic equipment had to be imported to drill through the rock. However, operating at extremely cold temperatures, the equipment frequently broke down. It is estimated that the drilling equipment was operating only 60 percent of the time.¹³ Due to these difficulties, the first deliveries of South Yakutian coal only began reaching Japan in 1983—four years behind target.

At the same time Japanese demand for coal has diminished substantially since the mid-1970s when the agreement was signed. As a result of rapidly rising energy costs, Japan scrapped almost one-half of its aluminum production during the 1970s.¹⁴ Similarly, investments in the steel industry declined throughout the decade as the Japanese sought to develop their less material-intensive industries (automobiles, electronics, and ceramics).¹⁵ Massive efforts were also undertaken to conserve energy in Japan. In 1980 7.7 percent of all Japanese outlays on plant and equipment was earmarked for energy-saving investment, another 1.7 percent was directed toward fuel conversion.¹⁶ Nuclear energy is also being rapidly developed and now accounts for 22.9 percent of all electricity generated.¹⁷ Foreign competition is also affecting Japanese purchases of Soviet coal. The United States and Australia are aggressively attempting to expand coal exports in order to lessen their severe trade imbalances with Japan.

Oil :

Japanese purchases of Soviet oil have shown more or less steady increases since 1977 and today exceed 137 million rubles per year.¹⁸ Nevertheless, the value of oil exports to Japan has fallen short of earlier projections due to the decline in oil prices in the past four years. The Japanese are now able to purchase oil on the spot market or on short-term contracts at competitive prices and do not need to negotiate long-term contracts, which have been preferred by the Soviets.

The centerpiece of Japanese-Soviet energy cooperation is the joint venture in off-shore drilling near Sakhalin, begun in 1977. So far, that project has tapped a few small gas wells, but no major oil fields.

Other Commodities :

Japanese steel production is dependent upon manganese ore imports, but requirements are met primarily by non-Soviet sources. Similarly, Japanese industries obtain palladium, platinum, gold, silver, rhodium, vanadium, and other rare metals primarily from South Africa, Canada, and other countries in Asia. With the destabilization of South African production of rare metals, however, the Japanese have expressed some interest in expanding their purchases from the USSR.¹⁹

Of the nations outside of the Eastern bloc, Japan is the leading importer of Soviet asbestos. Imports from the USSR account for as much as one-quarter of all Japanese asbestos purchases and have seriously eroded the Canadian share of supplies to Japan.²⁰

Cotton exports to Japan from the Soviet Union rose from 7 percent of all imports in 1965–1969 to 16 percent in 1976. More than 36 percent of all cotton imported into Japan comes from the United States.²¹

Thus, in its principal export sectors the Soviet Union is confronting rapidly rising development costs, greater foreign competition for the Japanese market, and declining demand within Japan for energy resources and other raw material.

3. Soviet Imports from Japan

Over the past decade Soviet imports from Japan have demonstrated remarkable consistency. (Table 3). Japanese machinery and equipment constitute slightly less than 30 percent of all Soviet imports from Japan, followed by steel pipe (primarily for pipeline construction and oil drilling), rolled steel, and road-construction equipment.²²

Table 3. Soviet Imports from Japan, 1975–1984

Rank	1975	%	1982	%	1983	%	1984	%
1	Machines, Equip.	27.9	Machines, Equip.	30.1	Machines, Equip.	28.3	Machines, Equip.	27.0
2	Rolled Steel	13.2	Pipe	24.0	Pipe	20.1	Pipe	21.5
3	Pipe	13.1	Road Constr. Eq.	11.7	Rolled Steel	7.5	Rolled Steel	7.6
4	Chemicals	3.7	Rolled Steel	6.1	Road Constr. Eq.	7.4	Road Constr. Eq.	4.6
5	Silk, fabric	3.5	Chemicals	3.2	Chemical	4.2	Chemicals	4.6
6	Cocks, valves	3.2	Drilling Equip.	2.7	Chemical Equip.	3.2	Chemical Equip.	3.1
7	Consumer Ind. Eq.	2.8	Indust. Armatures	2.2	Drilling Equip.	3.1	Silk, fabric	2.6
8	Bulldozers	2.4	Chemical Equip.	2.2	Silk, fabric	2.9	Drilling Equip.	2.6
9	Insulating mater.	2.1	Silk, fabric	1.8	Insulating mater.	1.9	Insulating mater.	2.3
10	Tin plate	2.1	Plastics	1.4	Plastics	1.9	Metal Presses	2.0
Totals		74.0%	85.4%		80.5%		77.9%	

Soviet imports from Japan are closely tied to large-scale development projects in Siberia and the Far East, such as the Baikal-Amur Rail Line, pipeline construction, as well as the seven joint projects negotiated by the Soviet and the Japanese. However, the 12th Five Year Plan does not call for any new large-scale development projects in Siberia and the Far East. Pipeline construction was slated to be largely completed by 1985, consequently the future demand for Japanese pipe and earthmoving equipment is in serious doubt. Soviet purchases of large-diameter pipe peaked in 1982 and now are only one half that level.²³ It is noteworthy that Mannesmann AG, the giant West German steel manufacturer and supplier of large-diameter pipe to the USSR, has already retooled its production facilities and is no longer counting on the Soviet market for pipe.

Machine tools and industrial equipment represent the single largest import items from Japan. In contrast to Soviet trade patterns with Germany, Italy, France and England, a large share of these machinery purchases from Japanese firms is linked to major joint development projects or joint ventures. Thus, the Soviets have purchased heavy timber harvesting machinery from Komatsu in exchange for timber and forestry products.

A significant portion of Japanese machinery sales to the USSR is not covered by these joint projects. This is especially the case for industrial process equipment, primarily

numerically-controlled machine tools and lathes. In this category of machinery imports we find that the USSR turns to Japan to buy very large scale equipment. As we see in Table 4, the average price of Japanese machine tools sold to the USSR was considerably larger than those sold elsewhere, indicating that the Soviets were buying larger, more sophisticated Japanese equipment. The contrast is even more pronounced in numerically-controlled lathes purchased by the Soviets, which averaged 158 million yen apiece, compared to only 15.3 million yen per unit for those sold to American firms.²⁴ In other words, the Soviets were buying numerically-controlled lathes at approximately 10 times larger unit price than were most other purchasers of Japanese equipment.

Table 4. 1983 Japanese Machine Tool Exports to the USSR and Soviet Bloc vs all Exports (U)

Exported to	Units	Value *	Value Per Unit *	Percent of Total Exports **	Percent Change 1982/1983
<i>Total Machine Tool Exports</i>					
USSR	579	16,598	28.7	7.0	155.5
Soviet Bloc	964	11,448	11.9	4.8	187.2
All Exports	296,306	237,445	0.8	100.0	95.9
<i>Machining Center Exports</i>					
USSR	82	4,866	59.3	6.2***	169.7
Bulgaria	31	1,536	49.5	2.0***	477.0
All Exports	3,438	78,641	22.9	100.0	107.6
<i>NC Lathe Exports</i>					
USSR	23	3,633	158.0	6.1****	221.9
All Exports	3,705	59,685	16.1	100.0	76.6
<i>Other Tools</i>					
USSR	474	8,099	17.1		

*—Million Yen

**—Based on Value

***—Percent of Total Machining Center Exports

****—Percent of Total NC Lathe Exports

Source: *Metal-working Engineering and Marketing* (Nagoya: News Digest publishing Co., Ltd.) Vol. 6, No. 5 (September 1984), pp. 34—39.

It is likely that an increase in exports of Japanese machine tools and industrial equipment can compensate, at least in part, for the decreased sales of pipe and earthmoving equipment. The 12th Five Year Plan places heavy emphasis on reequipping existing factories, modernizing technological processes, and automating production.

The Japanese are perhaps the world's leaders in industrial application of machine tools, and thus, are well positioned to take advantage of this new thrust in Soviet economic priorities. Many Japanese firms are currently negotiating contracts for reequipping Soviet factories. For example, Unitika, Ltd. of Osaka recently finalized a contract for modernizing the Ivanovo textile factory.²⁵ Such contracts will, however, involve smaller amounts of money and will entail more specialized equipment resulting in more difficulties in installation and assimilation.

4. Structural Factors and the Downturn in Trade

What factors are accounting for the recent reduction in Japanese-Soviet trade? On the Soviet export side of the equation, there are at least five factors influencing events. First, the absence of new joint projects and a long-term agreement on trade have limited Japanese-Soviet commercial cooperation. No new long-term joint projects have been undertaken by the two countries since 1975, in part due to the decline in detente and the Soviet invasion of Afghanistan and in part due to economic factors. Because the largest portion of Japanese-Soviet trade is conducted under the umbrella of these large government-to-government joint projects and funded with state supported credits, the absence of such projects and the absence of a long-term trade agreement have restricted commercial contacts.

In July 1985 the Japanese and the Soviets renewed their trade pact for five years.²⁶ This agreement covers not only goods, but also services and know-how. However, the pact falls short of what the Soviets desired, namely, a comprehensive agreement incorporating new joint projects, financing terms, and purchasing and buy-back agreements. Given the tremendous dynamism displayed by international markets in the past few years, the Japanese are reluctant to lock themselves into long-range commitments with the USSR. Consequently the 1985 trade pact merely pledges that each country will strive to expand trade in mutually beneficial areas.

A second factor that has tended to restrict Soviet exports to Japan in recent years has been a declining demand in Japan for basic raw materials, especially energy resources. Since the oil price shocks of the mid-1970s, the Japanese economy has largely been restructured. Energy intensive basic industries have either been scrapped or made much more energy efficient. The thrust in Japanese industry today is in high technology and service industries that are much less resource dependent. A slump in construction in Japan since 1979 has also depressed demand for lumber.

Thirdly, as we noted above, with declining oil and gas prices the Japanese have been able to purchase energy resources on the spot market or on short-term contracts. Although the volume of oil exported to Japan has increased steadily since 1977, the declining price of oil has resulted in fewer export earnings for the Soviets, thus limiting their ability to purchase Japanese machinery and equipment.

Soviet exports of timber, coal, and other raw materials from the region east of Lake Baikal have also been hampered by the slow development. BAM and the South Yakutian coal fields have fallen several years behind schedule, as have efforts to develop copper reserves in the Udokan region. In many cases, the initial discussions of these projects came at a time in the 1970s when the Japanese were still trying to diversify their sources

of raw materials and the political and economic climate was much more favorable for commercial ties. As we have noted, however, the structure of Japanese industrial production has since shifted, resulting in different resource needs.

Finally, the Japanese government has been pressured by its major trading partners, the United States, Canada, and Australia to buy more raw materials and forestry products from them in order to alleviate their growing trade imbalances. The Reagan Administration recently targeted timber and forestry products for discussions with Prime Minister Nakasone in an effort to increase Japanese purchases from the U.S. Similarly, the Canadians have been urging the Japanese to purchase timber from them. The U.S. Congress recently lifted a restriction on the sale of North Slope Alaskan oil to the Japanese, in an effort to reduce the trade imbalance. Faced with an estimated \$48 billion trade surplus with the U.S. in 1985 and confronting an angry and protectionist Congress, the Japanese have apparently cut back on imports from the USSR and expanded their imports from their major trading partners in North America and Australia.

The recent downturn in Japanese-Soviet trade can also be attributed to factors which tend to depress the ability of the USSR to import machinery and equipment from Japan. Since the Soviet invasion of Afghanistan the Japanese have been unwilling to provide credits at preferential interest rates to the USSR. In February 1980, under pressure from the United States Government, Japan cancelled \$1.4 billion in credits to the Soviet Union. In 1985 Japanese Export-Import Bank interest rates offered to the USSR ranged from 8 to 8.5 percent, compared to 6 percent for preferred clients.²⁷

Given the difficulty the Soviets face in obtaining cheap credits, they have turned to demanding export financing by trading houses and private companies as well as increased countertrade measures. Currently the Soviet commercial negotiators have been demanding corporate financing for approximately 7 percent of all purchases, while countertrade (buyback) demands are made for 50 to 100 percent of sales to the USSR.²⁸ Furthermore, the Soviets want counter-purchases to come in the form of manufactured goods rather than in raw materials. These demands have, for the most part, been unacceptable to Japanese firms, since Soviet products are simply not marketable in Japan's sophisticated consumer market. The resale of Soviet manufactured goods in third countries is cumbersome and also has the potential for eroding Japanese markets in those same countries.

The Japanese have a growing trade surplus with the USSR, which severely restricts the Soviet Union's ability to purchase Japanese machinery and equipment. Because the ruble does not exchange on the international monetary market, the Soviets are forced to cover virtually 100 percent of their imports with exports or credits. The trade imbalance grew very rapidly during the period 1980 through 1982 when the Soviet Union was importing huge quantities of large diameter pipe for the Siberian gas pipelines and heavy earthmoving equipment for the BAM project. Since 1983 the trade imbalance has fallen to \$1.3 million rubles, approximately 40 percent below the 1982 level.²⁹ The diminishing trade imbalance in recent years reflects a reduction in Soviet purchases of pipe, but it also has resulted from a change in Moscow's technology import priorities, turning to Western Europe rather than Japan as the primary source of supply for machinery and equipment. Soviet foreign trade officials are encouraged to purchase technology and

equipment from Germany, Finland, Italy, and France because the USSR has a trade surplus with those countries thanks to their purchases of Soviet gas.³⁰

In the past decade, the Japanese have been aggressively pursuing commercial relations with China as an alternative market to the Soviet Union and as another source of raw materials. In 1985 Sino-Japanese trade totalled \$12 billion—approximately three times the level of Japanese-Soviet trade.³¹ Furthermore, Japan grants more than ten times the amount of credits to China that they extend of the USSR.³² The preferential treatment accorded the Chinese has sparked some resentment among Soviet trade officials.

Finally, economic sanctions and stiffer COCOM controls have restricted the volume of Soviet technology imports from Japan and other Western nations. The Japanese followed the lead of the United States more than any other COCOM member nation in imposing a comprehensive embargo on exports to the USSR in retaliation for their invasion of Afghanistan in late 1979. Japanese-Soviet trade recovered in 1981 when the Japanese began to lose contracts to French, British, German and Italian competitors who were not observing the embargo. Nevertheless, Japanese official trade policy toward the USSR remains cautious and conservative, reflecting both the inherent conservatism of the Nakasone government toward the USSR and a reluctance to deviate too radically from the trade posture of the United States.

5. Prospects for Japanese-Soviet Trade

The future of Japanese-Soviet trade remains very much in doubt. While it is increasingly apparent that the optimism of the 1970s regarding rapidly expanding bilateral trade and commercial cooperation was not fully justified, there may be room for incremental shifts and increases in Japanese-Soviet trade in selected sectors in the years ahead. For example, officials of Nissho Iwai reported in early 1986 that Soviet inquiries for steel-rolling machinery were fewer than in the past, but that Soviet trade officials had expressed interest in equipment for consumer goods industries.³³ In 1985 Japanese manufacturers received inquiries for more than \$225 million in automobile production equipment.³⁴ The Soviets also proposed several joint ventures for the manufacture of agricultural equipment and televisions and other consumer items.³⁵

The sale of chemical equipment is likely to grow in the future if four new Japanese-Soviet chemical projects under discussion are formalized.³⁶ One of the projects, estimated to total \$1.8 billion, calls for the Japanese to sell production technology for the manufacture of polyester fibre. The other three projects are for undisclosed products. Minister of International Trade and Industry, Keiji Murata, is quoted as saying that the Japanese Government would be willing to provide low interest loans for these four projects.³⁷

There is also potential for expansion by Japanese firms into the Soviet computer market. In 1985 COCOM lifted controls on 8-bit computers, opening up the Soviet market for a potentially large number of industrial process and office computer systems. Taking advantage of this development, Star Micronics signed a contract in July 1985 for the sale of 104,000 computers and printers to be used in Soviet schools. The contract was reported to be for 300 million yen.³⁸

There is also a trend toward more Soviet purchases of other types of high technology equipment. For example, in October 1985 Kawasaki Heavy Industries, Ltd. concluded a 200 million yen deal for the sale of 12 vibrating machines used in the production of industrial ceramics.³⁹

However, all of these deals, with the possible exception of the chemical projects, involve much smaller investments than the joint projects and sales of turnkey plants which dominated Japanese-Soviet commercial relations in the 1970s. Japanese businessmen remain interested in the potential development of copper reserves in Udokan, asbestos at Molodezhnyi, and the construction of several steel mills in the Far Eastern district. These projects would, in all likelihood, entail large sums of money, requiring financing by the Japan Export-Import Bank and incorporating arrangements for counter-trade or buy-back. Nevertheless, the Japanese appear to be moving cautiously. In particular, as of mid-1986 they were waiting to see whether their differences over the Sakhalin Liquefied Natural Gas (LNG) project would be successfully resolved.⁴⁰

The Soviet Union and Japan remain at an impasse on a general agreement for the development of Sakhalin oil and gas. Under the terms of the project, Japan was scheduled to import 3 million tons of LNG per year for 20 years beginning in the early 1990s. However, Soviet delays in completing feasibility studies and the sharp drop in oil spot prices prompted the consortium of Japanese electric power companies to arrange the necessary imports of LNG from other sources through the latter half of the 1990s. The negotiations have also been adversely affected by the rapid appreciation of the yen in late 1985 and the first half of 1986.

Improved Japanese-Soviet commercial relations were also hampered in 1985 and early 1986 by Soviet intransigence on a fishing accord. In contrast to previous years in which Japanese fishermen were permitted to fish within Soviet territorial waters even in the absence of an agreement, in 1985-1986 the Soviets would not permit any fishing. The Soviet refusal resulted in economic hardship for fishermen on Hokkaido and the northern portion of Honshu and strained political relations at a time when the Soviets were attempting to rebuild their ties to Japan through Foreign Minister Shevardnadze's visit to Tokyo. The impasse over fishing combined with the hardening of the Soviet stance on the Northern Territories has created a significant obstacle to future trade expansion.

Many Japanese businessmen express the opinion that trade with the USSR "should be increased" above the current level of 2 percent of total Japanese trade.⁴¹ Nevertheless, they note that economic factors, combined with the Soviet inflexibility and high-handedness make it unlikely that Japanese-Soviet trade will expand significantly in the next decade. Several officials note that the Chinese are much more cooperative, flexible, and businesslike in their dealings with Japanese firms.

The Gorbachev regime has not significantly moderated its economic policies toward Japan, rather it appears to have continued on the same course set by its predecessors. Gorbachev's emphasis on reequipping industries west of the Urals, his opposition to new large-scale development projects in Siberia and the Far East, and his unwillingness to compromise on the Northern Territories and fishing rights issues does not bode well for the future of Japanese-Soviet trade.

Notes

- 1 Calculated from SOTOBO data published in *Monthly Bulletin on Trade with the USSR and East Europe* (January 1965–April 1985).
- 2 *Ibid.* and also based on data presented in the annual statistical compilations *Vneshniaia trgovlia SSSR* (Moscow : Finansy i statistiki) 1981–1985.
- 3 *Japan Times*, March 5, 1986, p. 7.
- 4 For example see, Iu. S. Stoliarov and Iu. A. Pevzner, eds. *SSSR-Iaponiia : Problemy trgovno-ekonomicheskikh otnoshenii* (Moscow : Mezhdunarodnye otnosheniia, 1984).
- 5 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 6 For an extensive discussion of proximity and Japanese-Soviet trade, see Leslie Deines, "Soviet-Japanese Economic Relations : Have They Begun to Fade ?" *Soviet Geography* (September 1985), pp.
- 7 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 8 Cited in Peter Blandon, *Soviet Forest Industries* (Boulder : Westview Press, 1983), pp.235–254.
- 9 *Ibid.*
- 10 *Japan Times*, March 14, 1986, p. 9.
- 11 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 12 From consultations with Yukihiro Kato, General Manager, External Relations Department, South Yakutian Coal Development Cooperation Co., Ltd., Tokyo, March 6, 1986.
- 13 *Ibid.*
- 14 M. M. KostECKI, *Soviet Impact on Commodity Markets* (London : Macmillan, 1984), p. 119.
- 15 *Japan 1984 : An International Comparison* (Tokyo : Keizai Koho Center, 1984), p. 21.
- 16 Cited in Dienes, p. 512.
- 17 *Japan Times*, October 27, 1984, p. 2.
- 18 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 19 From consultations with officials at Keidanren and SOTOBO, June 30, 1985 and March 4, 1986.
- 20 KostECKI, p. 180.
- 21 *Ibid.*, p. 228.
- 22 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 23 *Ibid.*
- 24 Cited in *Metal-Working Engineering and Marketing* (Nagoya : News Digest Publishing Co., Ltd.), 6, No. 5 (September 1984), 34–39.
- 25 *Japan Times*, November 2, 1985, p. 6.
- 26 See *Japan Times*, July 26, 1985, p. 10.
- 27 Hiroshi Oda, "Problems of Japanese-Soviet Economic Relations," *Review of Socialist Law* (1985), 11, 114.
- 28 From consultations with officials of Kanematsu-Gosho, Ltd. ; Nissho Iwai, Corp. ; and SOTOBO, March 3–4, 1986. Countertrade demands vary widely depending on the degree of competition with West European companies. Where there is strong competition for a contract, the Soviets press for more countertrade or company financing. When a piece of equipment is badly needed by the Soviets and there is little competition, Soviet officials do not demand countertrade.
- 29 *Vneshniaia trgovlia SSSR : 1975–1985*.
- 30 In 1983 the USSR's trade surpluses amounted to \$2 billion with Italy, \$932 million with

France, \$742 million with Britain, and \$703 million with Germany. Cited in Katsuhiro Miyamoto, "Soviet-Japanese Trade Relations," paper presented to the 3rd World Congress on Soviet and East European Studies, Washington D. C., October 30–November 4, 1985.

- 31 Cited in Dienes, p. 521.
- 32 *Moscow News*, No. 41 (1984), p. 6.
- 33 Consultation with officials of Nissho Iwai, Corp., March 3, 1986.
- 34 *Japan Times*, November 22, 1985, p. 7.
- 35 *Japan Times*, August 3, 1985, p. 8.
- 36 *Japan Times*, October 5, 1985, p. 7.
- 37 *Ibid.*
- 38 *Japan Times*, July 27, 1985, p. 6.
- 39 *Japan Times*, October 10, 1985, p. 6.
- 40 *Japan Times*, November 22, 1985, p. 7.
- 41 From consultations with officials of Nissho Iwai, Corp. ; Kanematsu-Gosho, SOTOBO, Keidanren, and the South Yakutian Coal Development Cooperation Co., Ltd., March 3–5, 1986.