Recent Trends in the Soviet-Japanese Economic Relations : High Expectations, Slow Progress

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I The Background : Three Layers of the Asian-Pacific Economies

Since Gorbachev went to Vladivostok and Krasnoyarsk in 1986–1988 and spoke about the Soviet intention to participate in the burgeoning Pacific Rim economies, the Soviet policy toward the Asian-Pacific Region has changed substantially. The change can be detected in the proceedings of a conference attended by 19 foreign policy experts, most of whom are specialists of the Asian affairs in the government or in the institutes in the Academy of Sciences.[1] The participants were almost unanimous : The Soviet Union so far looked primarily to the West, concentrating on the U.S. and Europe and ignoring Asia-Pacific. The Asians perceive the USSR as a militarily powerful, though economically and technologically weak, nation. The glasnost' is not evenhanded, as the military installations in Vladivostok and elsewhere in the east are still closed whereas those west of the Urals are open to the NATO inspections. This asymmetry enhances the image of hostile Soviets in the Asian minds, and so on. Clearly, the Soviets want a new approach toward Asia-Pacific, emphasizing the contacts in economy and technology and de-emphasizing the military aspects. And yet the countries in Asia-Pacific to which the Soviet Union now makes appeasing overtures have substantially transformed their economic structures in 1980s. The Soviets must take this new reality into account in formulating the Asian policy.

Three factors have changed the Japanese economy : the appreciation of yen, the fall of oil price and the decline in interest rate. The appreciation of yen damaged the export industries and brought them into a critical test of survival. They were forced to innovate the production technology and create new products. The fall in the price of oil and the interest rate helped reduce the cost of production. The three factors benefited the Japanese economy as a whole, as seen in the high growth rate of GNP that exceeded the expectation. At the beginning of 1987, the average annual rate expected by forecasters was 3%, but the actual rate turned out to be 5%. Similarly, the forecasted rate of growth for 1988 was less than 4%, but the actual performance was close to 6%. A recent estimation was that the rate in 1989 was likely to be also around 5%, indicating the third consecutive year of expansion. (Sterngold)

Japan in post-WWII period underwent four cycles of technical change, each of which had different leading sectors of production. The cycle now under way is led by the electronics and the information technology. Similarly, the third wave, led by such consumer durable sectors as the compact cars and the personal computers, started right after the first oil crisis in 1973–74 and transformed the industrial structure from "heavy, thick, long, large" to "light, thin, short, small." The data show that the proportion of output for 1970–1985 shifted from the basic material sector to the processing and assembly sector during the third cycle, then moved from the latter to the information sector in the latest cycle. (Uekusa Table 2, Zaitsev Table 10)

The innovation and transformation of Japanese industries was prompted by the increasing competition with the newly industrialized nations (NIES) consisting of South Korea, Taiwan, Hong Kong and Singapore. Their average annual rate of growth of GDP was 7% in 1978–

85, exceeded 10% both in 1986 and 1987, and was a little above 9% in 1988. Korea now exports to Japan such industrial goods as textiles, steel, refrigerators, cameras, television sets, tape recorders and semi-conductors. The share of industrial goods in Korea's export to Japan has reached 73%. The share of industrial goods in the whole export from "four tigers" to Japan amounts to 66%. Clearly, what has emerged is a radical departure from the traditional trade pattern that Japan buys raw materials and foods from her neighbors while selling them industrial goods. At the same time, the share of NIES in Japan's trade and the share of Japan in the NIES' trade are increasing. Thus, without a formal organization like common market, Japan and the NIES have grown into an integrated entity (sometimes dubbed as Japa-NIES).

In addition to Japan and the NIES, four countries that form the Association of South-East Asian Nations : Thailand, Malaysia, Indonesia and the Philippines ("ASEAN-4") have come to the fore. (Morgenthaler) Though their per capita income levels are still low (8–17% of Japan's as estimated by Kravis), their recent growth records (with the annual rate of 5–6% for 1975–88) are impressive. The Japanese manufacturing firms are moving to the ASEAN, sometimes even moving from the NIES to the latter. (Erlanger) Taiwanese investment in Thailand has also become noticeable. And these investments by the neighbors fueled the ASEAN's export-led industrialization and their de facto integragion into the Japa-NIES. From the U.S. standpoint, the three layers of dynamic Asian economies are creating both challenges and opportunities. The U.S. has found it necessary to impose quotas and "the voluntary export restraints," and to implement the "super 301" clause of the new trade bill. The domestic industries have to be shielded from the Asian challenges to such an extent that some even argue that "the American market is now at least as protected as Europe's, and considerably more protected than Japan's."[2] Yet at the same time the U. S. intends to have an increasing share in the expanding Asian markets, and America's volume of trans-Pacific trade has in fact exceeded that of trans-Atlantic. However, since the economies in East and South-east Asia grow so fast and they trade among themselves in increasingly open environment, it is widely predicted that the trade among the countries in the Asian side of the Pacific Rim will surpass trans-Pacific trade by sometime in the early 1990s. (Maidment)

II The Soviet-Japanese Trade

In 1988 the volume of trade between the Soviet Union and Japan hit the historical record of almost $6 billion.[3] This is a remarkable achievement, since the volume has been stagnating throughout 1980s after having reached the previous peak of $5.5 billion in 1982. The 1982 peak was unique not only with the large volume of trade but also with the extreme imbalance of export and import. In that year Japan exported to the Soviet Union more than twice as much as she imported. In the subsequent years the imbalance persisted, although the absolute levels of exports and imports both decreased. Seen in Table 1, however, the situation improved greatly in 1987 and 1988, since the Soviet exports to Japan, though still smaller than the Japanese exports to the Soviet Union, reached 89–92% of the latter. Two factors may stand out in contributing to the improvement. The first was the appreciation of yen that helped reduce the deficit in balance of payment of Japan's trading partners. The Soviet Union was no exception. The second factor was the disclosure of the violation of COCOM regulations by the Toshiba Machine Corporation of Japan, and the criticism against the Japanese business behavior that followed. In fact, when the U.S. Congress passed the omnibus trade bill, it inserted two provisions of sanctions directly related to the scandal.

First, the Toshiba Machine Corporation and the Kongsberg Trading Co. of Norway were barred from exporting to the U.S. for three years. Second, Toshiba Corporation and Kongsberg Vaapenfabrikk, their parent companies, were barred from signing contracts with the government agencies for three years. (Feder) The sharp criticism by the U.S., perhaps more than the disclosure of the scandal itself, stunned the Japanese. Not only did the Japanese government tighten the regulations, but the Japanese corporations also cancelled even those contracts which had already been signed and would have been easily passed through the inspections. Thus the volume of Japanese export dropped by 19% from 1986 to 1987. Although the near panic atmosphere subsided, the export in 1988 still did not regain the 1986 level. While there are some signs on the U. S. side to relax the regulations (Gordon), the Japanese government control over the dual purpose technologies remains tight, and the U. S. mistrust has practically vanished.

In addition, one should note that the Soviet-Japanese trade has only a minor position in the two countries' foreign trade. The Soviet share in the Japan's foreign trade was only 1.3% in 1987 and 1988. From the Soviet standpoint as seen from Table 2, Japan was only the fifth largest trading partner among the capitalist economies in 1988 (surpassed by Germany, Finland, Italy and France).

The commodity composition of the Soviet-Japanese trade, as presented in Table 3, is a classic manifestation of what economists call the factor endowment hypothesis, i.e., a country tends to export the good whose production intensively uses the factor endowed abundantly in that country. The Soviet Union which is richly endowed with mineral, forest and marine resources thus exports coal, oil, natural gas, cotton, lumber and fish, while Japan, barren in natural resources and rich in technology and capital, exports steel and machines. (Diens) The steel products the Japanese export are mostly pipes for shipping oil and liquefied gas. The export of Japan-made machines tended to be dominated by those used for construction and mining, but it has shown some sign of diversification. To mention a few examples, the computers and other equipment for data processing, the consumer durables like color TV sets, the port facilities like forklifts and elevators, the transport equipment such as ships, crane trucks, dump trucks and micro-buses, have become major export items.[4]

Neither the Soviets nor the Japanese are satisfied with the current level and pattern of their bilateral trade. The grievances from the Soviet side are, first of all, about the deficit in their trade balance which, though smaller lately, has continued every year since 1975. Secondly, their exports slant too much toward fuels and raw materials ; Japan should import more manufactured goods. As a participant in the conference put it (MZh), a central role in the international division of labor in the Pacific is played not by raw materials and semi-fadricated products, but by the machines and equipment. The trade of the former grows only slowly, while the trade of the latter shows most dramatic increase. In order for the Soviet Union not to be left behind, the international migration of capital is essential. (It probably means the Japanese investment in Siberia and the Soviet Far East.)

The Japanese practitioners of trade also make complaints and suggestions. They argue that in spite of the Soviet desire to penetrate into the Japanese market for manufactured goods, it will take many years for the Soviet-made machines to gain competitiveness. It is thus more realistic to concentrate efforts on selling fuels, raw materials and intermediate products. Further, some Soviet practices are creating obstacles to the trade. For example, the Soviets should be punctual in the delivery of goods. For the Japanese plants that adhere to the just-in-time system in keeping materials and parts at minimum, any delay in the delivery is fatal. The quality control of products also needs improvement. The quality of lumber im-

ported from the Soviet Union is inferior to that from the U.S. and Canada. Furthermore, the Soviet firms should make more vigorous effort for marketing overseas. So far only the firms in the machinery industry have been transformed into khozraschet basis and are allowed to negotiate directly with foreign firms. The firms in the chemical, steel and fishing industries should also be included in that arrangement. (Murakami)

The policy shift in three different directions may be necessary in order to resolve these problems. And the changes are already visible. The first is the shift from bilateral trade to multilateral trade, the switch from bicountry relation to multinational relation. The second is the cooperation of companies in forming a joint venture and a consortium. And the third is the reevaluation of the border trade.

III Multilateralism and Multinationalism

In mapping the future trade relation between the Soviet Union and Japan, one should view it not as a bilateral relation but more as a component of the multilateral system. Despite the Soviet desire, it is difficult to depart from such traditional export goods as fuels and lumber because they are embedded in the country's resource endowments. Since Japan streamlined the industries, her dependency on the Soviet materials diminished greatly. At the Vladivostok symposium in fall 1988, Soviet attendants voiced the view that Japan was "too advanced" and that the Soviet Union should enter into closer ties with the Asian NIES and ASEANs (Jiji Press). Indeed South Korea by now has a competitive edge over Japan in such fuel intensive industries as steel and shipbuilding. The Soviet Union is increasingly interested in business contacts with South Korea and opened the office of trade representatives in Seoul at the occasion of the Summer Olympics in 1988. South Korea in return opened the offices of KOTRA, a semi-government corporation for trade promotion, in Moscow and Vladivostok. If the Soviets insist on trade on the bilateral basis, then they should promote the trade with Korea and not with Japan, because Japan does not need as much fuel as Korea does. However, if the Soviets want the transfer of the computer and other information technologies at advanced levels (as they obviously do), they cannot lightly dismiss the trade with Japan as "too advanced." One then has to depart from the bilateral trade and devise some multilateral system in its stead.

As I remarked earlier, the trade relations between the three layers of Asia-Pacific have been developing as a multilateral system. To bring the Soviets into this system, one may conceive, for example, a triangular trade where the Soviet Union exports fuels to Korea and imports communication technologies from Japan, while Korea exports industrial goods to Japan. The major impediment to develop such multilateral system is of course the lack of convertibility of rubles, and one wishes that ruble will be convertible soon. Short of this, one hopes that the Western banks will play more positive role in the East-West trade. The restrictions on the bank loans to the East, "financial COCOM," is most elusive, and little is known about its substance except that such restriction does exist. Furthermore, regardless of such restrictions, the country risk of the Soviet Union is also a factor and, given the worsening economic conditions, the Western banks must increasingly consider this factor seriously.

Apart from the multilateral trade, there are cases where several companies are involved in single business deals with the Soviet Union. And these companies are often from different countries. This is seen especially in large "plant exports", i.e., the export of a package of machines for building a plant.[5] A recent example of a very large plant export is a

petrochemical complex to be built in Western Siberia, which will cost up to $6 billion. A consortium consisting of three Japanese companies[6] and the Combustion Engineering Corporation of Stamford, Connecticut, U. S., announced in 1988 an agreement with the Ministry of Chemical Engineering to study the feasibility of producing plastics and other chemical polymers in the middle reach of Yenisei.[7]

Another project costing around $10 billion and involving companies across national boundaries is designed by a consortium of two U. S. companies and two Japanese.[8] The project is under negotiation with the Ministry of Oil Refining and Petrochemical Industries and for building a chemical complex in the middle reach of Ob' to process the natural gas extracted in that area and to ship the products to the aforementioned complex in Yenisei. The two projects will eventually merge to become one of the world largest. The Ministries hope to complete the construction in the latter half of 1990s.

An international consortium in petrochemical industry also builds a $6 billion plant at Tengis, near the Caspian Sea. According to an announcement in November 1987, the consortium consists of the Occidental Petroleum Corporation of U.S., Montedison S. P. A. and Ente Nazionale Idrocarburi of Italy, and the Marubeni Corporation of Japan. (Adelson) As seen, these projects are really multinational, and cannot be called either Soviet-U. S. project, Soviet-Japanese project, or anything else. The international consortia are formed for technological, financial and marketing needs.

There is a consensus among the Japanese specialists that a crucial project involving Japan is the one that exploits the oil and natural gas resources in the continental shelves on the Pacific side of Sakhalin.[9] As much as 4 billion dollars may have to be invested. According to the original plan, three-million tons of liquidized natural gas and a half millon tons of crude oil are to be brought into Japan annually, thus helping alleviate the chronic imbalance in the Soviet trade vis-a-vis Japan. Pipelines are to be built across the island and across the Tartar Strait to the ports in the Maritime Region. The Japanese exports of machines and steel pipes to Sakhalin would thus increase. The Japanese formed a consortium consisting of private companies and a public corporation under the jurisdiction of MITI. However, although the negotiations started 15 years ago, neither the Soviet Union nor Japan has been keen in pushing the project. The main reason for the Soviets' reluctance was the depressed oil price.[10] The Japanese utility companies, major potential buyers of liquidized natural gas, were also reluctant to commit themselves to the Sakhalin project because fuel from the Middle East and other sources was enough to meet the current demand.[11] Recently, however, a light at the end of tunnel has at last become visible, because the two parties have agreed that liquidized natural gas will be sold to the Soviet domestic market and only crude oil will be exported to Japan. And if things go well the shipment of crude oil to Japan may start by 1992. (Kitano) One should be reminded, though, the question whether the project will reap profit or not depends primarily on the future world oil price, and thus there still remains the possibility that the project will be put back on the shelves again.

Ⅳ The Soviet-Japanese Joint Ventures

The joint ventures are major vehicles whereby the capitals are imported and the technologies transferred. The participants in MZh conference point out the relaxation of regulations on the joint venture agreements as a sign of flexibility on the part of Soviet government. As of 1 January 1989, the Soviet Union had 8 joint ventures with Japan : 3 in Moscow, 2 each in Sakhalin and the Maritime Region, and 1 in Siberia. Compared with those set up by Euro-

pean and American companies, they are all of the modest size, and started later. The capital of the largest one is only 7 million rubles. The share of the Japanese capital is 49% in all the eight. Five out of eight are to exploit the forest and marine resources, and the remaining three are in the service area.[12] There are none in the mining and manufacturing industries in the strict sense.

The first joint venture, the Igirma Tairiku Inc., was set up by the Irkutsklesprom and the Tairiku Bōeki Co. of Tokyo in June 1987 with the total capital of ¥460 million. The purpose is to fell the red pines in Siberia and to produce lumber for residential housing. Of the total products, 80% is to be shipped to Japan, and the rest is sold in the Soviet Union. The lumber mill with the annual capacity of 90 million cubic meters was opened in Novaia Igirma, 400 miles north of Irkutsk, in March 1988. The merit of this enterprise is to transfer the Japanese technology of sawing frozen wood and to set up a continuous production process from raw wood to finished lumber under one roof. It is hoped that the quality of imported Siberian lumber which some Japanese builders were complaining of will improve.[13]

The Japanese fishing industry is increasingly eager to set up joint ventures. As will be discussed in Section 6, the Soviet government has been restricting the Japanese fishing activities not only within the waters 200 miles off the Soviet coasts but, in a certain cases, even in the open seas beyond the 200-mile zones. Only by forming a joint venture with the Soviets can perhaps the Japanese industry continue to have access to the Soviet fishing stock. The Pilenga Combine of Sakhalin is the first Soviet-Japanese joint venture. It was set up by the Sakhalin Fishery Corporation and the Hokuyō Kyōdō Suisan Co. (the Japanese drift-netters' company) with the capital of ¥4.4 billion in 1988. The plan is to build six salmon hatcheries on the branches of Tym' River to liberate 30 million fry annually. The construction of a hatchery started in spring of 1989 with the cost of ¥1.7 billion. (*Suisan Keizai Shimbun* (henceforth referred to as *SK*), Jan 1, Mar 1 and Apr 17, 1989)

A joint venture, "Diana",[14] was set up in Iuzhnosakhalinsk by the Sakhalin Fishery Corporation and three Japanese companies (including Taiyō Gyogyō Co.) with the capital of 7 million rubles. The main purpose is to build and operate a plant to produce minced fish meat out of pollack. (*HS*, Nov 4, 1988) Another venture, "Soniko," by Koopvneshtorg of Khabarovsk and Nissobōeki of Japan is to build a plant to process the spent herring. (*SK*, Jan 1, 1989)

There are several other joint ventures in fishery. The ventures for which the negotiations started since the beginning of 1989 include the project for processing sea urchins by the Dal' ryb and the Mitsubishi Corporation, the one for processing herrings by the Nihon Suisan and the Mitsui & Co., the venture for catching and processing gray cods by the Magadan Fishery Corporation and the Hokuyō Kyōdō Gyogyō Co. (the group of long liners in Japan) (*SK*, May 1 and Jun 1), the joint effort by the Sakhalin Fishery Kolkhoz, the trawlers in Kushiro and Wakkanai of Hokkaido, Nisso Bōeki Co. of Sapporo and Nichimō Co. of Tokyo to catch and process pollack and horse hair crabs (*SK*, May 12,), and so on. In the service area, a plan to build and operate a hotel in Moscow is under way by the Mitsui & Co., Seibu Saison, and the Shimizu Construction Co. (*HS*, Nov 4, 1988)

Needless to say, not all the negotiations have reaped fruits. When the talk was deadlocked, the lack of convertibility of rubles and the difficulty in repatriating profits were often mentioned as the reason. A curious example where a joint venture was aborted is a project to build a salmon hatchery by the fishermen in Shibetsu Machi in Hokkaido in collaboration with the Sakhalin Fishery Corporation. They set a fish preserve and libreated the fry in the area off Kunashiri Island which the Japanese claimed as their territory. The government in Tokyo objected to them saying that the Soviet joint venture law ought not be applied to the

intrinsic land of Japan, and asked the Hokkaido government to revoke their move. The latter was having a hard time, however, finding a legal ground to comply with Tokyo's wishes. The issue was further complicated because those Japanese fishermen were Ainus, Japan's aborigines, and asserted the aboriginal right in doing business in *their* intrinsic land. The government kept pressuring the fishermen, and the latter finally backed down by moving the fish preserve to the Hokkaido coast. The episode left unresolved discontent in the local fishing community. The views in the Ainu community were also split. Some hailed the defiance to the Tokyo authorities as a pertinent gesture when they were commemorating the bicentenary of the 1788 uprising of Kunashiri Ainus. Others were wary of Japanese reaction as they were lobbying the Diet to pass the Ainu bill.[15]

V The Soviet-Japanese "Border Trade"

The trade between the adjacent regions of the Soviet Union and Japan, "the border trade", should be considered more positively. In 1978 the Soviet Union promoted Dalintorg (Far East Trade Corporation) to an all-union khozraschet agency. It handles the products the enterprises in the Soviet Far East[16] and Eastern Siberia bring in after having fulfilled their production quotas to the State. In 1987 Rosvneshtorg, a RSFSR organization, was set up and given the right to trade directly with the outside world, and Dal' intorg became a part of Rosvneshtorg. With increasing decentralization, Dal' intorg may obtain more leeway of operation. In the border trade, the Soviets supply coal, lumber, sea food and other foodstuff to Japan, while the Japanese export consumer goods (textile, office supplies, and footwear), and industrial materials such as automobile tiers and paint to the Maritime Region and Sakhalin. The exact volume of trade is unknown since 1982, but it is estimated that the volume has been stagnant around $100 million a year. (Murakami)

Interviewed by the journal *MEiMO*, Kazuo Ogawa of SOTOBO proposed the economic cooperation of the countries facing the Sea of Japan. He pointed out that, left behind the technical change, "the Ura (Backyard) Japan," the region facing the Sea of Japan, still finds the fuel and material intensive industries as the major source of income. It is also indicated that compared with European Russia and Siberia, the Soviet Maritime Region is less developed and the standard of living of the population lower. Two sides of the Sea of Japan may then form a good trading partnership. In fact, the JAL and the AEROFLOT have passenger flight between Khabarovsk and Niigata, a port city in the Backyard Japan.

One may also point out that the similar condition of relative backwardness exists in Japan's Hokkaido and Soviet's Sakhalin. And in fact the trade across La Peruse Strait is sizable. According to the MITI trade statistics (*HS* May 25, 1989), the exports to the communist countries were 55% of Hokkaido's total exports in the 1987 fiscal year (40% in the 1986 fiscal year). This presents a sharp contrast to the average figure for Japan, as the exports to the communist countries were only 6% of Japan's total exports in 1987 (7% in 1986). A similar difference can be found in the import side. The imports from the communist countries were 24% of Hokkaido's total imports in 1987 (33% in 1986), whereas the imports from the communist countrfes were only 6% of Japan's total imports in 1986 and 1987. Thus the communist countries were at the top of the countries to which Hokkaido exported, and were the second only to North America among the countries from which Hokkaido imported. It is indeed difficult to relocate industries and work force from one region to the other. One may have to assume the capital and labor endowments in each region of a country as given. Then trade between less-develloped regions of two countries may give a second best solution to the

optimum resource allocation. In this connection, one should also mention that the Soviet government decided to set up three special economic zones including Nakhodka in the Far East. The detalis of the regulations in these zones are yet to be known, but this measure may help promote the international trade and investment.

There have been many, diverse deals. The contracts have been signed in some, and the discussions are still under way in the other. To mention only a few examples, six thousand tons of gravel were exported to golf links in Sapporo. (*HS* Jun 8, 1988) A similar deal was also under way with Sakhalin. (*HS* Jun 19, 1988) Sakhalin also wanted to import 20 thousand used cars. Unable to assemble them at once, Hokkaido agreed to sell 300 of them for the time being.[17] The construction of a building and the export of medical equipment for an obstetric hospital in Iuzhno-Sakhalinsk was brought to the attention of a visiting delegation of Japanese Diet members. (*HS*, Jun 12, 1988) The plan to open a chartered flight service between Iuzhnosakhalinsk and an airport in Hokkaido for summer tourist season was discussed. (*HS*, Jan 3, 1989) The wherry service between Kholmsk of Sakhalin and Wakkanai of Hokkaido for summer season has started in 1989. A Russian restaurant will be open in Kushiro in Hokkaido and a Japanese sea food restaurant will be open in Kholmsk in 1989. A Japanese restaurant will also be open in Khabarovsk in 1990. (*HS*, Oct 30 ; Nov 26, 1988) Hokuren Co. is building a vegetable storage facility at the Komsomolets collective farm in Sakhalin with the cost of ¥400 million. (*HS*, Jun 13, 1989) The Hokkaido Overseas Coal Exploitation and Supply Co. concluded a contract with Dal' intorg to ship 300 tons of beat from Korpakov in Sakhalin to the Ishikari Bay New Port in 1989. (*HS*, Aug 3, 1988)

Ⅵ The Issues in the Fishery Negotiations

The Soviet trawlers come to Japan's exclusive economic zones, i.e., the sea space within 200 miles off Japanese coasts, to catch sardines and mackerels. Similarly, the Japanese boats enter Soviet's 200-mile zones to catch pollacks. Every year, two governments meet, negotiate the quota of catch and other terms of fishery, and sign an agreement. Until 1984, the Soviets agreed to set a higher quota to the Japanese fishing activity than the quota Japan set to the Soviet vessels. Increasingly, however, the Soviet side emphasized reciprocity and the need to preserve the fishing resources in their waters. The Japanese and Soviet quotas for 1985[18] were set equally at 600 thousand tons, and the following year they were drastically cut to 150 thousand tons. Since then the two countries' fishing boats have been operating under the quota of the same quantity. The quota on the catch in 1987 for each country was raised to 200 thousand tons, further to 210 thousand tons in 1988, and kept at that level for 1989. Starting with the agreement for 1987, however, the Soviets allow the Japanese to catch 100 thousand tons more than the agreed-on quota, provided that the latter pays the charge for the common of piscary. The practical implication of the agreement is that the Soviets circumvent the principle of reciprocity in return for the hard currency revenue. Although the additional quantity remains at 100 thousand tons for three years, the charge has been increasing : ¥1.29 billion for 1987, ¥1.71 for 1988, and ¥1.98 for 1989.[19] The charge has been one of the issues in the hard bargain. According to the Japanese fishermen in Hokkaido, the charge is so high that, given the falling market price of fish, they are compelled to operate without profits.

There are other issues in the negotiations ; most notably, there remains a curious fact that the quantities actually caught has been far below the quota agreed on. The actual catches by the Japanese were 158 thousand tons and 159 thousand tons in 1987 and 1988, re-

spectively, whereas those by the Soviets were 119 thousand tons and 57 thousand tons in the same years. Each side criticizes the other, saying that the regulations imposed on the other's fishing method, size of vessels, the fishing areas and the period for fishing are too restrictive. The Soviet delegation specifically asks the Japanese to open her port for the Soviet trawlers. The Soviet vessels operating within the Japanese 200-mile zone need fresh vegetables and water, and the crew needs rest and recreation. Time could be saved, so the Soviets argue, if the boats would be allowed to call at a Japanese port instead of returning home. Since 1984, in response to the Soviet demand, Japan agrees to open one of her ports to the Soviet trawlers. Because of strong opposition by the Japanese conservatives, the local community designated as the port of call is often disturbed by the political demonstrations against the visiting crew. Thus the Japanese fishing agency has hard time to persuade the mayors of the fishing ports to accept the assignment. As a result, the port for the Soviets trawlers changes its location every year along the Pacific coast of the north-east Honshū Island.

Those agreements to regulate fishing in each country's 200-mile zones are not applied to salmon fishing. Salmons are anadromous fish that originate in a river, migrate to the deep ocean for four or five years and then return to the original river for spawning. According to a U.N. resolution, a country has the right and the obligation to preserve the anadromous fish stock. Based on this, the Soviets restrict the Japanese fishing of the Pacific salmons that originate from Soviet rivers. The restriction applies to the salmons caught not only in the Soviet 200-mile zones but also in the open seas beyond. In fact, the quota to Japan in the Soviet 200-mile zone was zero till 1987. In the meantime, the quota outside the Soviet 200-mile zone, which had remained at 42.5 thousand tons till 1983, kept falling since then : 24.5 thousand tons in both 1986 and 1987, 17,668 tons in 1988, and finally 15 thousand tons in 1989. Further, in return for giving the Japanese the opportunity to catch salmons of Soviet origin in the open seas, the Soviets charge them to meet "the fishery cooperation expenditure." It is not called the charge for the common of piscary because fishing takes place in the open seas. And in fact the Soviets spend a half of the Japanese payment for importing the equipment made in the third countries for fish stock preservation . This charge has been rising sharply ; in per ton basis it tripled in ten years, and reached ¥223 thousand in 1989.[20]

To compensate in part the Japanese loss of salmon catch in the open seas, the Soviets decided in 1988 to allow the Japanese boats to enter their 200-mile zone, provided that the latter pay "the charge for the common of piscary" and participate in a fishery joint venture.[21] The quota in 1988 was set at 2000 tons and the area near the Southern Kuriles was designated. The charge per ton for these catches was the same as the one in the open seas. In the 1989 agreements, 3000 tons of salmon near the Eastern Kamchatka were added to the 1988 quota. Thus, taken togeter with the quota in the open seas, the quota in total to the Japanese remained virtually the same at 20 thousand tons in 1988 and 1989. The Soviets may benefit more from the 1989 agreement than the one in 1988 because, first, the salmons caught in the 200-mile zone were on their way back to the "mother river" and thus larger than those caught in the open seas ; second, the Soviets can watch more closely the violations of the agreed-on conditions by the Japanese fishermen, and third they receive the capital and the technology from Japan through joint ventures. The trend that the quota to the Japanese decreases in the open seas and increases in the 200-mile zone has been set and is lilkely to continue. In fact, the Soviet Ministry of Fishery announced that as far as the salmons of Soviet origin are concerned, the fishing in open seas would be completely banned by 1992.[22] Although the Japanese government objected to the Soviet move, it has little leverage to coun-

ter it.

In a certain cases, those who negotiate and sign agreement may not be the governments but non-governmental organizations. Regarding the salmon fishing in the Soviet 200-mile zone just mentioned, detailed conditions such as the exact areas for fishing, the number and size of vessels involved, the beginning and closing dates for operation, etc. are left to the negotiations between the joint venture company, the Japanese and Soviet fishing combines, and the Kamchatka Province. Another example is sea kale and sea urchin harvesting off Kaigarajima Island (Ostrov signal'nii). The island is one of the Habomai group which belongs to what the Japanese call the Northern Territory whose sovereignty is under dispute. The Japanese argue that if their government representative sits for negotiations, it implies that they acknowledge the Soviet sovereignty. Thus the Hokkaido Association of Fishing Industry, a private organization, represents the Japanese side, negotiates and signs agreement annually since 1981. In spring 1989 it was agreed that 375 Japanese boats were allowed to harvest sea kale from June through September and that the charge for the common of piscary was set at ¥115 million. Similarly, the agreement on sea urchin was that ten boats were allowed to enter the area from November through January, and the quota was set at 130 tons with the charge of ¥36 million. The economic significance of sea kale and sea urchin to Japan is minimal, though they are an important source of living for local communities. However, they may serve as a barometer to the two countries' relation. In fact, for four years beginning 1977 when the Soviets set the 200-mile zone, the harvesting by the Japanese was suspended. In contrast, the business as usual relation prevailed in 1989. The Japanese delegation was quoted as saying that the negotiations were held in very friendly atmosphere and the violations of the agreements by the Japanese boats which the Soviets had often criticized in the past negotiations was not touched at all this year.[23]

Indeed the Japanese boats often violate the agreements. The recent example was the 26 trawlers that went out of the agreed-on eastern side of the Kurile Chain area and operated off the Western Kamchatka. The Soviets revoked the license to those fishermen and notified the Japanese government. The Japanese Fishing Agency also punished them by ordering the 26 boats to anchor for 100–200 days during which even no repair work was permitted.[24] It was the largest number of boats ever punished, and 200 days were the longest period of suspension the Japanese Fishery Agency ordered. The fishermen were said to be shocked by the severe punishment, but the Japanese Agency took this action partly because it was hoped that the severity of punishment might help induce the Soviet government to reissue the operation permit.

The violations near the Northern Territory especially create a sensitive problem. The Japanese Coast Guard vessels and the Soviet patrol boats both monitor the area and watch the poachers. One occasionally hears the reports that the Japanese Coast Guard arrested the fishermen who steered a high-speed "kamikaze boat" into the disputed space to poach for crabs and sea urchins.[25] One also hears the news that a Soviet patrol boat seized the Japanese boat that had gone out poaching, detained the crew for some time, fined them, and then freed them and their vessel.[26] The poachers may not be limited to the tough gangs, as the Japanese side often claims. In fact the local government of Nemuro at the eastern tip of Hokkaidō confirmed that 14 boats manned by the card-carrying members of the local fishermen's association were involved in poaching. In retaliation, the Soviets have added a more powerful patrol boat to the fleet to win the cat and mouse game.[27] The Soviet view may be summed up by a correspondent of Tokyo bureau who was quoted as saying that a poacher went out to the Soviet sea space, while the organizers of the irredentist movement in Tokyo

pulled strings behind and, not accidentally, the Japanese Coast Guard pretended a benign neglect.[28] Unjustifiable though the Soviet opinion may seem to the Japanese, the case is another example that the territorial issue adversely affects a local economy and accelerates the irritations of both sides. The area south of Etrup Island and north of Shikotan and the Habomai Group is called the "triangular area," and is a rich ground for crabs. The Japanese fishery in this area, however, has been banned since 1978. In the Foreign Ministers conference in Tokyo in December 1988, Uno asked Shevardnadze to reopen the area. And the Soviet side agreed to enter negotiations, provided that private organizations represent both sides. A formula similar to the sea kale and sea urchin harvesting off Kaigarajima is likely to be used in the case of crab catching.[29]

NOTES

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1 See Rogachev et al. in *Mezhdunarodnaia Zhizn'*. Henceforth abbreviated as MZh.

2 See *the Economist.* One should take such a blanket statement with caution. The estimation is affected by the way in which the voluntary export restraint are interpreted, whether it is taken as truly voluntarv one or as quota in disguise. Similarly, the non-tariff barriers to trade may be interpreted either as the de facto restrictions or as the cultural differences.

3 The figure is the sum of exports and imports.

4 SOTOBO, *The 1986 Fiscal Year Conference Report.*

5 Japan's plant exports to the Soviet Union in 1985 included not only the traditional export item such as the heavy industrial equipment (crankshaft grinders and the petroleum measuring equipment) but also the light industrial machinery that had not been seen in the Soviet trade before, e. g., a plant for color television sets, one for making gloves, for toilet papers, for a hydroponic farms, etc. See Ogawa in SOTOBO (ed.), *The 1986 Fiscal Year Conference Report.*

6 Three companies are Mistsubishi Corporation, Mitsui and Co. (both are general trading companies) and Chiyoda Kakō Kensetsu, a construction company.

7 See *Hokkaidō Shimbun* (henceforth referred to as HS), Nov 12, 1988. For other activities of the Combustion Engineering, e.g., the joint venture called "Applied Engineering System" in the city of Nizhnekamsk which the company founded in cooperation with the Soviet Ministry of Oil Refining and Petrochemical Industries, see Copetas.

8 The four companies are the McDermott International and the Combustion Engineering of U.S., and Mitsubishi Corporation and Mitsui & Co. of Japan.

9 The estimated deposits are 10 million tons of oil and 100 billion cubic meters of natural gas.

10 See Ogawa in SOTOBO (ed.), *the 1986 Fiscal Year Conference Report,* and Kitano.

11 A pressure from the United States may be another reason. It was reported that "since 1982, the United States has successfully pressed Japan to delay building its Sakhalin project with the Soviets, citing fears Japan would become overly dependent on Soviet energy." (Riley) Riley also mentioned that the McDermott International, a U.S. Company,

was also planning its Sakhalin project independently from the one by the Japanese. When I interviewed a McDermott officer in August 1988, he said that the project was still in the preliminary stage and might well take seven-eight more years to take shape. It was expected that the McDermott would construct off-shore platforms, while the Mitsui & Co. would market the products. A petroleum company to team up with them was yet to be found.

12 See Murakami's article in SOTOBO Proceedings of a Conference published in 1989.

13 *HS* Mar 29, 1988 ; Apr 6, 1988.

14 The joint venture was named after the ship the Vice Admiral Putiatin was boarding in 1853.

15 See *HS*, Jan 8, Mar 17, Sep 8, 10, 15, and 22, 1988, Kumagaya, and Nishiura.

16 The Soviet Far East normally includes three oblasts : Sakhalin, Magadan and Kamchatka, and two krais : Khabarovsk and the Maritime Region.

17 *HS*, Jul 20, 1988. The Soviet side mentioned the large saving deposit and the pent-up demand for cars among the Sakhalin residents. The annual delivery of 4,200 cars was not enough to meet the demand.

18 The year referred to is the one during which the fishing activities are talking place. The negotiations normally start in the preceding year, and the agreement is reached either within that year or in the following year.

19 Sources : Fishery Agency and *HS*, Dec 12, 1988.

20 The charge was ¥3.35 billion in 1989. For more detailed information concerning the agreements, see "The Japan-Soviet Fishery Agreements Reached. The Quota Greatly Reduced," *HS*, Apr 30, 1988, and "The Japan-Soviet Fishery Negotiations Finally Ended. A Cut in the Deep Seas, and an Increase in the 200-Miles Zones," *SK*, May 2, 1989.

21 The Soviet-Japanese joint ventures including the ones in fishing industry are discussed in Section 4.

22 "The Salmon Negotiations : The Soviets Proposed a Complete Ban on the Open Sea Fishery," *HS*, Mar 5, 1988.

23 "Fast Conclusion of Kaigarajima Negotiations. The Sea Urchin harvest will be Halved. The Sea Kale Harvest will Remain at the Same Level," *HS*, May 23, 1989.

24 Eight boats out of 26 received the 200-day suspension order because this was their third time violation, and twelve boats that violated twice got 150-day suspension order. *HS*, Jun 3, 1989 ; *SK*, Jun 5, 1989.

25 In May 1989 the Coast Guard at Nemuro, Hokkaidō, arrested six fishermen who drove a three-ton "kamikaze boat" and poached crabs off Kanashir Island. *HS*, May 23, 1989.

26 A fairly recent example was that a 124-ton trawler from Kushiro, Hokkaidō, was seized by the Soviet patrol off Shikotan Island. The charge that an unreported, hundred boxes of pollack were found in the deck at the time of spot inspection was lodged. *HS*, May 26, 1989.

27 The Soviet "fleet" consisted of two-three "Stenka" class patrol boats and two high-speed motor boats. To this has been added a "Pauk" class small anti-submarine ship. For these two types, see Jane's.

28 "Soviet Irritations : A Speedy Patrol Boat Has Been Added," the third article in the Series, "In the Sea of Poachers," *HS*, Oct 21, 1988.

29 "The Crab Fishery Around the Northern Territory May be Reopened," *HS*, Dec 8, 1988; "Shevardnadze-Uno Conference : The Joint Venture Regulations will be Revised. Shevardnadze was Cautious about the Operation in the Triangular Area," *HS*, Dec 20, 1988 ;

"The New Phase of the Operation in the Triangular Area : The Fishery Agency is Ready for Concrete Negotiations," *HS*, Dec 21, 1988.

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Table 1. Soviet-Japanese Commodity Trade

Commodity Group	From Japan to USSR			From USSR to Japan		
	1986	1987	1988	1986	1987	1988
Food	0.0	0.1	0.1	7.1	7.9	10.3
Fuels & Materials	1.5	1.7	1.6	49.8	41.5	44.5
Fuels				18.5	18.6	18.1
Coal				13.7	12.6	14.0
Crude oil				4.1	4.4	3.2
Materials				31.3	22.9	26.4
Raw cotton				2.9	2.2	1.2
Scrap iron				3.9	1.7	1.0
Lumber				22.6	17.2	21.8
Chemicals	7.3	13.0	11.5	2.3	1.8	2.1
Plastics	3.8	6.5	6.2			
Metals	38.9	40.9	42.0	17.4	26.3	27.0
Steel	36.3	39.0	40.2	1.6	2.6	3.8
Non-ferrous	0.3	0.3	0.4	15.4	22.9	23.2
Machines	41.8	33.0	35.0	0.5	0.5	0.4
General machine	26.5	21.1	20.4			
Electric mach.	6.1	8.4	9.3			
Transport equip.	8.2	2.5	4.4			
Specials, Reexp.	3.3	3.7	3.3	20.2	18.7	12.3
Gold				19.6	18.3	12.1
Total (in %)	100.0	100.0	100.0	100.0	100.0	100.0
……(in mill. s)	3,150	2,563	3,130	1,972	2,352	2,766

(The figures in the last row are in million U. S. dollars. All the other figures are in per cent.)

Table 2. Soviet Trade Outside CMEA in 1986 and 1987

(in million $s)

	Export to		Import from		Balance	
	1986	1987	1986	1987	1986	1987
W. Germany	3,875	3,679	4,071	4,157	-196	-478
Finland	2,272	2,698	3,387	3,218	-1,115	-520
Japan	1,396	1,537	3,141	2,574	-1,746	-1,037
France	2,195	2,400	1,609	1,723	586	676
Italy	2,243	2,852	2,099	2,666	144	186
India	1,364	1,747	1,757	1,696	-393	51
U. K.	1,815	2,507	733	829	1,082	1,679
U. S.	445	441	1,632	1,453	-1,187	-1,012

The Source : SOTOBO (Japan Association for Trade with Soviet Union and Socialist Countries of Europe). *Monthly Bulletin on Trade With USSR and East Europe*, No. 2, 1988, pp. 115-29 ; No.2, 1989, pp. 14-29.