Chapter V

JAPANESE-SOVIET TRADE
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PRE-WAR TRADE

Trade with Soviet Union in pre-war days had never occupied a very high percentage of the total foreign trade of Japan. After the opening of the country, the Czarist Russia hoped to cultivate Japan as one of her food suppliers but this did not materialise. Japan's foreign trade became oriented more towards USA, both in case of imports and exports. Japan's exports to USA accounted for about 40 per cent of her total exports and imports about 30 per cent of her total imports, for many years prior to 1932. After 1932, however, America's share of Japan's exports declined sharply to about 20 per cent, though imports were more or less maintained at about 30 per cent. Her exports consisted largely of raw silk and other articles, the export of which was almost exclusively confined to the American market. Imports consisted mainly of raw cotton, petroleum, iron and other raw materials essential for Japanese industry. With the increased exports of Japanese textiles, Japan's demand for raw cotton also increased. The USA supplied nearly 40 per cent of Japan's total raw cotton requirements. In 1932, the proportion
rose to 71.4 per cent. When Japan started paying more attention to increasing her military strength, the USA became an important supplier of scrap iron, copper, steel sheets, iron and steel products as well as crude and heavy oils, machinery, motor cars, etc. (1)

As against this, Japan's trade with the Soviet Union, even at its peak stage, reached only 1.9 per cent of her total export trade and 2.5 per cent of her total imports. Because of geographic contiguity, Asiatic Russia took 94-96 per cent of the total exports to Soviet Union. Though negotiations were attempted twice, once in 1930 and again in 1941, for conclusion of a formal Treaty of Commerce and Navigation with the Soviet Union, the Treaty failed to see the light of day. Actually in 1941, an agreement was reached about the type of articles to be exchanged, but Hitler's attack on the Soviet Union, within a month, prevented the Treaty from being validated. In spite of this, Japan did not suffer any disadvantages, since the Basic Treaty of 1925 was in existence and Japan had concluded separate conventions relating to fisheries and also relating to oil and coal concessions in Sakhalin.

When we analyse the commodity structure of Soviet-Japanese trade, we find that while Japan's exports consisted

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of green tea, fishing nets and other fishing equipment, steel products, metal manufactures, machinery and tools, etc. the imports were mainly salted fish and shell fish, coal, manganese, mineral oil, timber, etc. Japan always suffered from an adverse balance of trade with the Soviet Union, which changed into an export surplus in the years 1935-37 as Japan paid, through Japanese and Manchurian merchandise, for the purchase of Chinese Eastern Railway in March 1935. (2)

In pre-war days, Japan could command her supply of minerals and ores, as well as agricultural raw materials, from her own dependencies, viz., Korea and Formosa and later on Manchoukuo. The position of China in Japan's foreign trade was also very important. She offered a big market for Japanese goods and constituted one of the leading sources for the supply of raw materials. (3) It might, therefore, not be incorrect to say that the Soviet Union could not use her trade relations with Japan to lure her or to put pressure on her.

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The War broke up the "yen bloc" which Japan had very carefully built so that it formed an integral part of Japan's own economy. She suffered an irretrievable loss as one of the "main pillars of her pre-war overseas trade" was cast down. Consequently, she had to look for new markets and suppliers. Again, her industrial establishments, trading organisations and overseas connections had been seriously damaged; her merchant ships had been destroyed or scuttled. Raw materials were scarce. There was also widespread discrimination against her exports.\(^4\) Japan was also not free to regulate her foreign trade.

Initially, foreign trade was under the direct control of SCAP and from April 1947 till the end of 1949, foreign transactions were conducted through official trading corporations. The flow of trade with the Soviet Union between 1946 and 1949 was as follows:

Table 1: Japan's Trade with the Soviet Union and percentage of total trade 1946-1949

<table>
<thead>
<tr>
<th>Year</th>
<th>Export (in thousand dollars)</th>
<th>Percentage of total exports</th>
<th>Imports (in thousand dollars)</th>
<th>Percentage of total imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>24</td>
<td>0.02</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1947</td>
<td>140</td>
<td>0.08</td>
<td>2,004</td>
<td>0.6</td>
</tr>
<tr>
<td>1948</td>
<td>4,385</td>
<td>1.70</td>
<td>2,670</td>
<td>0.5</td>
</tr>
<tr>
<td>1949</td>
<td>7,360</td>
<td>1.4</td>
<td>1,933</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Source: Compiled from Japan, Office of Prime Minister, Bureau of Statistics, Japan Statistical Year Book, 1949.
Most of the export trade was accounted for by repair of boats or supply of boats and engines and manila rope. The imports consisted of coal, coke and santonin. (5) In 1950, the Soviet Union wanted to place orders for textile machinery, tankers, more than ten cargo boats of 2,000 tons, small and big cranes, electric motors, etc. However, the GHQ stated that, unless Soviet Union cleared the outstanding four million dollars, no further orders would be entertained. The Soviet Union wanted to settle this by means of goods, rather than cash. However, among the products, she offered, Japan only needed the coal from Sakhalin. A one million dollar agreement was signed for the supply of 100,000 tons of coal. But finally, only 74,000 tons were delivered. Apart from this, the Japanese Government also imported East German potash for 30,000 dollars. (6) From 1951, the GHQ allowed the negotiations to be held on the private level directly with the Soviet Government on a barter-basis. But, with the outbreak of the Korean War and the COCOM restrictions, trade with

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5 *Nisso Boeki Yoran*, p. 226.

The Soviet Union was almost reduced to zero. (7) The Soviet Union, therefore, tried to offer inducements in her own way.

Unilateral action by the United States to retard the military build-up of the Soviet Bloc by denying her selected strategic goods was considered insufficient and in 1949, this was transferred to a multilateral forum and an informal Consultative Group (CG) was formed in Paris by UK, France, Italy, the Netherlands, Belgium, Luxembourg and USA. The membership was subsequently expanded to include Norway, Denmark, Canada and Federal Republic of Germany. These 11 members were subsequently joined by Portugal, Greece, Turkey and Japan. Japan joined in 1952. Two subordinate working committees perform the task of co-ordinating free trade controls, overseeing enforcement and recommending improvement measures. One is the Co-ordinating Committee (COCOM) established in January 1950 concerned with trade controls applying to the European Soviet Bloc and the other is the China Committee (CHINCOM) established in September 1952 with controls over shipment to Communist China, North Korea and North Vietnam, controls which were more extensive and stringent than those in effect against the European Soviet Bloc. There were three lists, List I (embargo), List II (quantitative controls) and List III (surveillance). The activities of COCOM were kept secret. Provisions for relaxation of the lists were authorised on the basis of prior consultation, before and after notification and special justification.


Although the Mutual Defence Assistance Control Act 1951 (Battle Act) forbids military, economic and financial assistance to any country that knowingly exports embargoed articles to the Soviet Bloc, there have been cases where the USA have not stopped the aid to European countries as "the unusual circumstances indicate, the cessation of aid would be clearly detrimental to the security of USA".

Also see, The Strategic Trade Control System, pp. 84-85.
The Soviet Union issued invitations to Japanese businessmen for the World Economic Conference held in Moscow in 1952. Her Mission in Tokyo was also actively stimulating the interests of Japanese businessmen and Diet Members in trade with the Soviet Union. However, when we see the figures for the years 1950-57 (given below), we find that a trend of increase in the total trade is seen only after 1955. At the same time, there was not much diversity in the commodities exchanged. The trade was carried on barter basis.

Table 2: Japan's trade with the Soviet Union 1950-1957

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>723</td>
<td>738</td>
<td>-15</td>
</tr>
<tr>
<td>1951</td>
<td>0</td>
<td>28</td>
<td>-28</td>
</tr>
<tr>
<td>1952</td>
<td>150</td>
<td>459</td>
<td>-309</td>
</tr>
<tr>
<td>1953</td>
<td>7</td>
<td>2,101</td>
<td>-2,094</td>
</tr>
<tr>
<td>1954</td>
<td>39</td>
<td>2,249</td>
<td>-2,210</td>
</tr>
<tr>
<td>1955</td>
<td>2,067</td>
<td>3,073</td>
<td>-1,006</td>
</tr>
<tr>
<td>1956</td>
<td>760</td>
<td>2,869</td>
<td>-2,109</td>
</tr>
<tr>
<td>1957</td>
<td>9,295</td>
<td>12,326</td>
<td>-3,031</td>
</tr>
</tbody>
</table>

It may appear from the figures that there was an adverse balance. Yet, as a barter agreement, the figures were balanced every year and the discrepancy is due to the fact that the cost of repair of ships has not been included in the figures. (8) It may be concluded that, in 1953, 1954 and 1956, good expansion of Japanese invisible export trade consisted of ship repair services. It also appears that though in private negotiations, generally a greater volume of trade, especially import of coal was attempted, finally a smaller amount was actually implemented. (9)

We should examine Japan's trade with the USSR only in the context of Japan's overall foreign trade revival. The official index of the quantum of imports and exports (1934-6 = 100) was only 4.3 for imports and 7.4 for exports in 1946. However, if we compare foreign trade with other factors, viz., that steel production reached pre-war level in 1951 and standard of living of the people reached the pre-war level in 1954, even in 1955 exports were only 75.4 and imports 94.3. (10) While the slow growth of foreign trade in general might partly

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explain the slow increase in Soviet trade there were other causes for the stagnation in trade with the Soviet Union.

Problems

Firstly, taking the Soviet side, one of the fundamental issues was the Soviet policy of following the autarky system and limiting the imports to the least. Also she held on the policy of regulating her trade relations not from a consideration of economic policies alone; rather the political factor played an important role in determining her trade policies. Even after Japan gained independence, the Soviet Union did not have diplomatic relations with her till 1956. In spite of these factors, trade might have taken the normal course, were the Soviet Union in a position to fulfill Japan's needs. The imports had to be limited to very few commodities, which factor also led to the stagnation of trade. Geographically, trade would have been more profitable with the Siberian region, but this region was not developed. The conditions were not favourable from the Japanese side either. Being under American occupation and receiving huge aid from USA, foreign trade, when it was revived, took the natural course of flowing towards USA. The Japanese industries also were receiving technological know-how from USA, apart from the necessary raw materials for reviving the industries. After the Korean War, the Japanese economy was rejuvenated with
income from special procurements also, where again the USA was the benefactor. (11) It is obvious that these benefits gave powerful boost to the big business concerns who, therefore, took a negative attitude towards the Soviet Union. At the same time, the delay in normalisation of relations with the Soviet Union also prevented visits by business leaders to that country for exploring market trends there. Soviet trade representatives were allowed to enter Japan for the first time in August 1954. They did not like to extend their stay beyond sixty days in order to avoid fingerprint registration, which has to be done by all aliens staying for more than sixty days. (12) The trade benefits which would accrue from cultivating the Soviet Union did not seem to warrant an attempt to

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11 Special procurements financed a high proportion of Japan's imports. In 1952-53, the proportion was about 36 per cent and even in the period 1957-59, it was nearly 14 per cent. They provided a stimulus to the growth of Japan's industries. This enabled Japan to deliver the goods needed, when the world investment boom created a demand for steel, ships and other capital goods, which the western producers could not quickly supply. However, it may be argued that special procurement made claims on Japan's resources, which would otherwise have been used for more conventional types of exports and this would have increased her exports, while keeping her imports down. While this cannot be denied, Allen correctly points out that it is doubtful whether "Japan would have been able during the 1950s to sell abroad on equally good terms products equivalent in value to special procurement expenditure". Allen, n. 4, pp. 38-40.

During the period 1945-50, US aid was equivalent to 57 per cent of the value of imports. By 1951, when aid ceased, the amount provided was $2,054 million. Allen n. 10, p. 229.

Oriental Economist, September 1956, p. 455.
break away from trade relations with the USA. (13)

Therefore, the business groups were only willing to take such steps as would not antagonise the USA or affect adversely trade relations with the USA. In actual negotiations for even limited purchases, excessive competition among the Japanese businessmen, while dealing with a State monopoly only proved to be of disadvantage to Japan. The monolithic corporations drove hard bargains and they were skilful in getting what they wanted.

The restrictions imposed by COCOM could explain the initial sluggishness of Soviet Japanese trade. Even though there was considerable relaxation in the COCOM list from 16 August 1954, limiting the prohibited commodities to strategic materials, the restrictions on ships continued. (14) Though restrictions on trade with the Soviet Union were not so rigid as those with China, the limitations on the tonnage and power of the boats, which could be exported to the Soviet Union, left only cargo boats with very slow speed for export and this affected trade with her, as boats

13 The US Government seemed to have issued instructions that all ships which had touched communists ports should not be given entry into an US port. This applied to men also. Oriental Economist, June 1954, p. 269.

14 The easing of the critical tension in East-West relations led to a demand for an overhaul of the strategic trade control system. The initiative was taken by Prime Minister Churchill who declared in the House of Commons on 25 February 1954 that a substantial relaxation should be made. The Strategic Trade Control System, n. 7, pp. 23-28.
of all kinds were in high demand by the Soviet Union and Japan was in a position to supply them. (15) Trade in other commodities, now permitted to be exported, also did not pick up considerably. One of the reasons was that the Soviet Union looked to Britain, West Germany and Belgium for the import of her heavy machinery, mainly because they suited her better both from the point of view of transport feasibility and also technical standards. Again, Japanese prices were higher than those quoted by the West European countries. (16) Till 1954, a natural factor, viz., the fall of trees in Hokkaido due to typhoon also limited the import demand of timber from Soviet Union. (17) In the post-war period, the structural changes within Japan's economy led to her reduced dependence on imports of certain raw materials for the manufactures. For example, in the production of rayon pulp, domestically grown timber has taken the place of imported timber. (18)

The Soviet Union always quoted the "international price" for her exports. In the case of the Soviet products, raw cotton and petroleum, she quoted the "international price" prevalent in the European market, but because of

15 Oriental Economist, September 1956, p. 455.
18 Allen, n. 4, p. 40.
freight and other handling charges for shipment from the European ports, there was considerable difference between the price quotation for Japan and that for other European counterparts. In the case of Sakhalin coal, if the same principle is applied, Soviet Union should quote only the equivalent FOB price of American coal. However, since this would peg the actual selling price of coal at a cheaper rate, because of the proximity of Sakhalin, and the consequent low transport costs, the Soviet Union quoted the "international price" for her Sakhalin coal, which made her FOB price higher than the FOB price of American coal. In short, the Soviet Union's price quotations were generally higher than the prevalent international prices, which also made her goods not very attractive for Japan. (19)

Finally, the problem of settlement of payments in a barter trade, operating an open account system, stood in the way of growth of trade. As a principle, the "back to back formula" was used, but at times the "TOMAS formula" or "reverse TOMAS formula" was also adopted. Though both these formulae were more convenient, than the open account, since basically, it was a barter agreement, unless agreement was reached for equal values of imports and exports—the

19 Sovieto Nenpo 1955, p. 683.
whole trade transaction could not be implemented. (20)

It appeared therefore that unless a proper commercial agreement was concluded with the Soviet Union, these irritations in Soviet trade would continue.

The open account system is a method of trade involving buying and selling on credit on the basis of a definite agreement between the nations concerned (in the case of Japanese-Soviet trade, the agreement was between private Japanese traders and the Soviet trade representatives). The cash settlement need not be made for each transaction. Debits and credits are kept in records and settlement in cash made at the end of a specific period, usually a year or so, when the difference grows to a pre-determined amount. "Future of the open account", Oriental Economist, June 1958, p. 297.

**Back to Back Formula**

Both the parties (importer and exporter) open letters of credit for the same value at the same time in a stipulated Bank and one L/C could not be operated until the other L/C also reaches the Bank. The L/C is guaranteed by the banker and cannot be cancelled. But it is divisible and transferable. The two obligations cancel out and no foreign exchange payment need be made.

**Tomas formula and reverse Tomas formula**

This formula was first used by a Japanese Company, which had TOMAS as its telegraphic code, in her transaction with People's Republic of China. Under the barter agreement, when the other party (viz. China or Soviet Union) is in urgent need of goods and when Japan has not yet decided upon the collateral imports or even if the collateral is decided, China or Soviet Union is unable to supply them immediately, while delaying the imports for a stipulated period (generally 3 months), the exports from Japan are shipped. This fact is noted appropriately in the L/C. This formula helps to relieve the delays in exports. In the case of "reverse TOMAS formula", the imports are shipped from Soviet Union or China, as the case may be, in advance.

The Joint Declaration with the Soviet Union, signed on 19 October 1956, stipulated in Article 7 that negotiations would be started for the conclusion of a Commercial Treaty. A protocol for trade was also signed along with the Agreement, which gave the contracting parties most favoured nation treatment in respect of import and export of goods as well as entry of ships into each other's harbours. However, no detailed provisions were made for the quantity of trade, exchange regulations, payment procedures, etc. During the second Moscow negotiations, Shepilov had stated that there was a possibility of a total trade of one billion roubles with Japan. This offer appeared to be plausible as the sixth Five Year Plan, adopted in the Twentieth Congress, held in February 1956, laid down that Siberia would be developed and special mention was also made of the development of Eastern Siberia in which Japan was particularly interested. The development of the region would create not only a source of supply of huge quantities of raw materials such as petroleum, coal, timber, etc. but would also provide a market for good deal of consumer goods for the labour employed there, apart from the demand for machinery and equipment needed for developing the area. The development of such a vast region could not be implemented in one five year plan and, therefore, the
demand was likely to be continuous. Thus this new factor
drew the attention of the Japanese traders, who began to
evince more interest in the regularisation of trade channels.

The negotiations for the Agreement were started in
Tokyo on 12 September 1957 and the Treaty of Commerce,
including an annexure on the status of the Soviet Trade
Mission in Japan as well as an Agreement on Trade and
Payments, was signed on 6 December, 1957. Japan had
initially proposed a Trade and Payments Agreement which
would not include other problems such as entry rights,
sojourn, trade activities in other's country, etc. Also
she wanted the duration of the Agreement to be for one
year. While the volume of trade she envisaged was
$10 million each way, it was only on ideal goal and was
not obligatory. The open account system was to be
abolished and the settlement would be made in pounds
sterling. (21) It also appears that, during the negotia-
tions, a proposal was put forward to the effect, that
only one State Trading Agency would be established to
deal with the problem of trade with the Soviet Union.
This was opposed by the Soviet Union on the ground that
it would block direct contacts between Soviet trade
organisations and Japanese trading firms. The system was

Sovieto Nenpo 1959, pp. 373-5.
not implemented for other countries and would thus be in contravention of the most favoured nation status, already agreed to in the Joint Declaration. (22) As such, Japan's attempt to fortify her forces, in confronting a monolithic State trading partner, did not succeed. Finally, the Treaty of Commerce was concluded, which would be valid for five years and which would give the most favoured nation treatment in respect of customs duties, levies, procedures, regulations, etc. Though there was a clause that import and export restrictions, not applied to other countries, would not apply in the case of the Soviet Union also, a clause was added that this would not prevent the contracting parties taking measures to protect their security. Thus CCOM embargo was to continue and sufficient provision was made for any such future embargoes. Soviet Union succeeded in getting agreement for granting diplomatic status and right to use code to the Trade Mission, which would be part of the Embassy. (23) The Trade and Payments

It appears Kono Ichiro, Chief of the Economic Planning Bureau suggested this.

23 The Soviet Union had already achieved this in her Treaties with France, Italy, India, etc. Since there was a provision in the Treaty that the number of staff members of the Trade Mission would be settled by mutual agreement, after the ratification of the Treaty, the number was settled as 22 apart from the Trade Representative and his two assistants. It was also decided that the Embassy would reduce 5 members of its staff bringing it to 50 and this would exclude the staff of the Trade Mission.
*Sovieto Nenpo* 1959, pp. 375-6.
Agreement laid down that all payments would be in pounds sterling, but in exceptional cases, barter trade would be allowed. A list of estimated exports and imports was included. Immediately after the signing of the Agreement, contracts were signed for Herring Packing Vessels and iron and steel. The Treaty became valid on 9 May 1958, the very first time after 1925 when such a Treaty came into existence between USSR and Japan. (24) One of the important results of this Treaty was the Japanese interest in Soviet timber for the manufacture of paper. On 18 December 1957, the Presidents of Japanese paper companies held a conference to discuss this subject and the shipping companies also formed a Council for the import of timber. (25)

During the negotiations, agreement was also reached on the question of establishing a sea route between Soviet Union and Japan and of holding talks in the near future for considering concrete problems. The Agreement regarding the opening up of a sea route between the Japanese and Soviet Ports (Yokahama-Nakodhka) and Japan-Black Sea was signed on 3 June 1958. (26)


In 1958 and 1959, the annual Trade and Payments Agreements supplemented the broader Treaty of Commerce and Navigation. Let us observe the flow of Japanese-Soviet Trade after the conclusion of the Treaty, in the context of Japan's total foreign trade and her trade with the Communist Bloc.

Table 3: Japan's total foreign trade - trade with the Communist Bloc and Soviet share

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Foreign Trade</th>
<th>Trade with Communist Bloc</th>
<th>Proportion of trade with Communist Bloc to total trade</th>
<th>Trade with Soviet Union</th>
<th>Proportion of Soviet trade to total trade</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>B/A (%)</td>
<td>C</td>
<td>G/A (%)</td>
</tr>
<tr>
<td>1958</td>
<td>5,907</td>
<td>161</td>
<td>2.7</td>
<td>40</td>
<td>0.07</td>
</tr>
<tr>
<td>1959</td>
<td>7,055</td>
<td>107</td>
<td>1.5</td>
<td>62</td>
<td>0.09</td>
</tr>
<tr>
<td>1960</td>
<td>8,546</td>
<td>198</td>
<td>2.3</td>
<td>147</td>
<td>1.7</td>
</tr>
<tr>
<td>1961</td>
<td>10,046</td>
<td>320</td>
<td>3.1</td>
<td>210</td>
<td>2.1</td>
</tr>
<tr>
<td>1962</td>
<td>10,553</td>
<td>440</td>
<td>4.1</td>
<td>296</td>
<td>2.3</td>
</tr>
<tr>
<td>1963</td>
<td>12,191</td>
<td>534</td>
<td>4.3</td>
<td>320</td>
<td>2.6</td>
</tr>
</tbody>
</table>

It is observed that the volume of trade with the Soviet Union in 1960 was double that of the previous year. This was the result of the conclusion of a three-year agreement in early 1960, which envisaged the total trade to be $440 million comprising of $230 million imports and $210 million exports for the three years ending 1962. (27)

Another feature of this Agreement was Japan's acceptance to extend the concession of deferred payment to Soviet Union also. Japan realised that she could not refuse this concession to the Soviet Union any longer, as she was granting this to her other trading partners. The refusal of this concession was also weakening Japan's competitive capacity as against other European nations, who already had such arrangements with the Soviet Union. Again, there was pressure on the Government by Japanese traders who could not sell plant and equipment without this facility. However, it was decided that deferred payments would be authorised on a commercial basis by the Export and Import Bank of Japan after a case by case deliberation for export of ships and plants. (28)

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28 Oriental Economist, April 1960, p. 187. There was a considerable relaxation in the COCOM list in 1958 and 1959 giving a boost to the export of cargo ships with heavy tonnage.
Another three year agreement was signed in February 1963 calling for a total trade of about $670 to $700 million in the three years ending with 1965. An agreement was reached on the development of coastal trade between Japan and the Far Eastern Maritime territories. The value of this latter trade was expected to be about $4-5 million one way annually and the trade was envisaged to be mainly consumer goods, Japan importing fish products, herbs, marble, vodka, etc. exporting cotton textiles, fishing nets, vegetables, canned food, porcelain, etc. (29)

28 contd.

Though the OOCOM lists are secret, since they are patterned after the Battle Act List, some idea can be obtained from that list. An unclassified summary of Battle Act List as effective on 1 October 1962 will be found in East West Trade Hearings Before the Committee on Foreign Relations US Senate, 88th Congress, Second Session, Part I, March-April, 1962, pp. 221-5.
In May 1957, a realignment of China controls with those imposed on Soviet-European Bloc was advocated and following the leadership of UK, many other countries abandoned the China differential. Japan followed suit on 16 July 1957.

COMPOSITION OF TRADE 1958-1963

Let us now observe the break-up of the import-export trade and also the commodity structure of Soviet Japanese trade in the years 1958-63.

Table 4: Break-up of Japan's trade with the Soviet Union

<table>
<thead>
<tr>
<th>Year</th>
<th>Total exports (in thousand dollars)</th>
<th>Total imports (in thousand dollars)</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>18,103</td>
<td>22,164</td>
<td>-4,061</td>
</tr>
<tr>
<td>1959</td>
<td>23,027</td>
<td>39,485</td>
<td>-16,458</td>
</tr>
<tr>
<td>1960</td>
<td>59,976</td>
<td>87,020</td>
<td>-27,044</td>
</tr>
<tr>
<td>1961</td>
<td>65,380</td>
<td>145,019</td>
<td>-79,639</td>
</tr>
<tr>
<td>1962</td>
<td>149,390</td>
<td>147,276</td>
<td>+2,104</td>
</tr>
<tr>
<td>1963</td>
<td>158,136</td>
<td>161,940</td>
<td>-3,804</td>
</tr>
</tbody>
</table>

Table 5: Japan's Major Exports to USSR

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile products (including fibres)</td>
<td>5,203</td>
<td>4,846</td>
<td>9,167</td>
<td>12,219</td>
<td>23,973</td>
<td>23,696</td>
</tr>
<tr>
<td>Chemical products</td>
<td>678</td>
<td>679</td>
<td>1,333</td>
<td>718</td>
<td>2,565</td>
<td>4,638</td>
</tr>
<tr>
<td>Metal products</td>
<td>8,773</td>
<td>6,295</td>
<td>26,921</td>
<td>16,024</td>
<td>34,901</td>
<td>44,946</td>
</tr>
<tr>
<td>Machinery (of which ships)</td>
<td>2,364</td>
<td>9,223</td>
<td>18,195</td>
<td>27,180</td>
<td>81,603</td>
<td>76,872</td>
</tr>
<tr>
<td></td>
<td>(321)</td>
<td>(8,087)</td>
<td>(11,201)</td>
<td>(3,910)</td>
<td>(37,784)</td>
<td>(33,981)</td>
</tr>
<tr>
<td>Others</td>
<td>1,085</td>
<td>1,984</td>
<td>4,360</td>
<td>9,239</td>
<td>6,348</td>
<td>7,984</td>
</tr>
</tbody>
</table>

Table 6: Japan's Major Imports from USSR

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Food (fish and wheat)</td>
<td>1,110</td>
<td>2,791</td>
<td>6,484</td>
<td>4,539</td>
<td>4,302</td>
<td>3,837</td>
</tr>
<tr>
<td>Raw materials (raw cotton, chrome ore, scrap iron, Lumber asbestos)</td>
<td>8,558</td>
<td>18,248</td>
<td>26,186</td>
<td>32,539</td>
<td>44,716</td>
<td>41,102</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>raw cotton</td>
<td>(108)</td>
<td>(2,672)</td>
<td>(6,597)</td>
<td>(4,605)</td>
<td>(944)</td>
<td>(768)</td>
</tr>
<tr>
<td>Lumber</td>
<td>(7,910)</td>
<td>(12,362)</td>
<td>(15,605)</td>
<td>(23,633)</td>
<td>(37,768)</td>
<td>(33,946)</td>
</tr>
<tr>
<td>Mineral</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fuels</td>
<td>5,895</td>
<td>7,651</td>
<td>27,288</td>
<td>60,051</td>
<td>64,779</td>
<td>64,654</td>
</tr>
<tr>
<td>coal</td>
<td>(5,717)</td>
<td>(5,046)</td>
<td>(7,680)</td>
<td>(13,253)</td>
<td>(17,040)</td>
<td>(14,885)</td>
</tr>
<tr>
<td>oil</td>
<td>(178)</td>
<td>(2,275)</td>
<td>(18,846)</td>
<td>(46,454)</td>
<td>(47,372)</td>
<td>(49,504)</td>
</tr>
<tr>
<td>chemical products</td>
<td>1,008</td>
<td>5,280</td>
<td>7,568</td>
<td>11,357</td>
<td>8,296</td>
<td>10,708</td>
</tr>
<tr>
<td>Other products (pig iron, white metals, palladium, aluminium)</td>
<td>5,515</td>
<td>5,432</td>
<td>19,494</td>
<td>36,533</td>
<td>25,183</td>
<td>41,639</td>
</tr>
</tbody>
</table>

Analysing the commodity structure, we find that oil imports started on a small scale in 1958, to become an important item of Japan's imports from the Soviet Union after the 1960 Agreement. Oil continued to occupy nearly 30 per cent of the total imports from Soviet Union. But Soviet oil comprises only about 3.4 per cent of Japan's total oil imports. If oil products are included, it comes to 4.6 per cent. (30) It appears, however, that the Baku oil has an important advantage over the Persian Gulf oil because of its low sulphur content. With an expanding economy, Japan's petroleum requirements are likely to grow and taking only the increasing demands into account, the Soviet oil should find an expanding market in Japan. (31)

30 This estimate is based on 1965 figures and mentioned in the report on the energy problems of Japan presented by Dr. Okita Saburo at the second meeting of the Japan-Soviet Economic Committee held in June 1967. Saburo Okita, Nihon Keizai no Vision (Tokyo, 1968), p. 24.

31 Hydroelectricity which provided in 1963 for over a quarter of Japan's energy consumption was expected to expand faster than coal production but only by 49% in 11 years. As a result, this source will provide only one-fifth of total energy consumption in 1970. Therefore, crude oil which accounted for 29.5% of 1959 energy consumption is likely to reach 49.6% by 1970. Japan will have to import all her crude oil requirements. While she is already depending on imports for 70% of her energy requirements, by 1975 she would be importing 82% of her energy requirements.

continued:
However, there are various considerations which block the natural growth of this trade. Firstly, the Japanese-owned and managed Arabian Oil Company in Kuwait has a rapidly expanding potential of supplying oil. It is but natural that Japan would prefer to depend on a supply controlled by her rather than a foreign-controlled source, possibly subject to arbitrary stoppages. The mammoth tankers built by Japan have reduced the transport costs to the minimum and long distances are no longer an important factor. However, the tense situation which continues to prevail in the Middle East does cause considerable anxiety to Japan as she depends on these oil fields for nearly 90 per cent of her oil supplies. Therefore, the possibility of diversifying her sources of oil supply seems to be an attractive proposition. But Japan cannot be guided in this matter by economic factors alone. American, British and Dutch oil companies, which have an interest in a large part of Japan's refining capacity, prefer to sell their own crude. The US Government also has raised problems regarding increased purchases of Soviet oil. In December 1961, the Defence Department

31 contd.

announced that it would refrain from purchasing jet fuel from Idemitsu Kosan, the largest importer of Soviet oil, on the ground that the Company's Soviet oil imports had expanded considerably in recent years. While the defence purchases were small, this was an indication of the problems which Japan had to face in shaping her Soviet oil import policy. (32)

Large quantities of Soviet oil can be imported by Japan at competitive rates only if Japan assists Soviet Union in laying the pipelines from the interior to the Pacific Coast. Soviet offer in this matter has been made since 1960, but no specific agreement has been reached. The US pressure on the export of oil pipe to the Far East might have been one of the factors. (33)

32 Hunsberger, n. 31, pp. 213-4.
Secretary of State, Dean Rusk stated in the US Senate Committee on Foreign Relations on 13 March 1964, that no free country should be over-dependent on the Soviet Bloc for critical commodities, such as oil. East West Trade, n. 28, p. 6.
For the extent of American and British capital in Japan's petro-chemical industry, see "Petroleum Refining and the Petro-chemical Industry", Fuji Bank Bulletin (Tokyo), November 1963, p. 64.

33 Japan supplied 5,000 tons of oil pipe in 1963, but an additional supply of 20,000 tons became abortive because of pressure by USA. However, since Soviet Union protested on 14 August 1963, and asked for compensation, permission for exporting the contracted quantity was given on 5 September 1963, on condition that no further demand for oil pipe export to the Soviet Union would be entertained.
Nihon-Soren Koryu Nenshi 1963, pp. 140, 156.
However, in the recent Japan-Soviet Economic Committees, Soviet Union has been asking for supply of these pipelines on long-term credit. Her proposal is that Japan should lay these pipeline lines and the Soviet Union would make the payment by the supply of 12 million tons of oil annually. (34) While this kind of proposition, no doubt, involves an assured supply for long years to come, there are the problems of Japan's ability to provide the initial long-term credit, her unwillingness to take the risk of waiting for supplies and her misgivings about granting the USSR a means of exerting political pressure through this issue. It, however, appears that with the growth of mutual understanding, a way may be found to promote these imports.

Lumber

Lumber forms another single important product imported from the Soviet Union. Though the quantity is increased every year, the lumber imports from Philippines

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In the 1967 Japan-Soviet Economic Committee meeting, a special committee has been appointed to study this problem. It appears that the Japanese share of investment for the oil pipes is likely to be $200 million and Soviet Union is prepared to make payments not only in oil but in lumber and pulp also. Rikuzo Koto, "Siberian Development Joint Japanese-Soviet Venture" Asia Scene (Tokyo), February 1968, pp. 80-83.
and Northern America far exceed the imports from Soviet Union and account for nearly two-thirds of Japan's total timber imports. However, there are great possibilities of increased timber imports from the Soviet Union, as there are still unexplored resources in Siberia. The Japanese traders are also exploring the possibility of importing Soviet timber not only for pulp, but also for construction purposes. (35) Here again, the Soviet Union hopes to have the cooperation of Japan for the supply of necessary equipment for developing lumber resources.

Other Raw Materials

Other raw materials and semi-manufactured goods make up the rest of the imports. There are possibilities of their expansion. Recently, imports of raw cotton and scrap iron are showing big increases. The general shortage in the world supply of medium long-haired cotton has made Japan look to the Soviet source as an alternative to American and Central American source. The manufactured textiles from this cotton can also be exported back to the

35 Basic agreement on development of Siberian forest resources was signed on 29 July 1968 in Tokyo by Kawai Yoshinari and Valery H. Akkuratov, President of Exportles. Japan will supply $163 million worth of machinery and facilities on a five year credit in return for processed lumber, which can be used for construction purposes. "Fruition of Japan-Soviet Economic Co-operation" Asia Scene, September 1968, pp. 12-13.
Though the Soviet Union is demanding that Japan should buy more machinery from her, machinery and other manufactures have not yet found a good market in Japan.

The prospects of Soviet Union supplying Japan with food products do not seem to be promising except for the small amount exchanged in the coastal trade.

Electricity

It appears that the Soviet Union is interested in supplying electricity to Japan by installing generators in East Siberia and laying power cables under the sea from Sakhalin to Hokkaido and even transporting electric power to Honshu areas. Here again, if the Soviet Union expects Japan to provide the capital for this project, it may not be a workable proposition. At the same time, it appears that mutual trust among the two countries has not developed to such an extent that Japan should be willing to give Soviet Union the power to control even part of her electric

Exports

Analysing Japan's exports to the Soviet Union, they comprise mostly of manufactured products. Rayon staple and rayon yarn, tyre cords, etc. were included in exports from 1960. With the relaxation of COCOM restrictions considerably in 1959 and also with the introduction of the deferred-payment arrangements, there were more enquiries for plants and ships. In 1962, when the Kawai Mission went to Soviet Union, they were able to conclude a contract for $96 million worth of Japanese ships. (38)

37 Note that Dr. Okita ascribes Japan's lack of interest in this proposal to their "island mentality", which can only conceive that electricity is a product which has to be produced and consumed in the same country. Okita, n. 30, pp. 211-3.


38 Hunsberger, n. 31, p. 216. The contracts covered 12 tankers of the 35,000 ton deadweight class, 5 freighters of the 12,000 ton class and 28 other ships including 10 crane boats. Payment was to be 30 per cent down, with the balance due over 6 years.
In the supply of plants, the Japanese supplying companies generally find it difficult to settle the problem of suitable collateral for imports. USSR is very particular that she should not run into an import surplus in her trade with Japan, though a common feature of Japan's trade with the Soviet Union is an increase of imports over exports. However, the USSR has a very limited list of articles to offer for trade. This problem has been partially solved by some companies through settling the transaction by importing the products of the plants, e.g. import of zinc ore concentrates in return for zinc ore dressing plant. (39) Another difficulty in plant exports is the long-term deferred payment demanded by Soviet Union. Japan follows a cautious policy in the extension of deferred payments beyond five years and she has to compete with the European countries which are willing to agree for long credits, say, 7-15 years. Long-term deferred payment agreements with the Soviet Union are not approved by USA and this is a factor which has to be reckoned with by

"Japan's trade with the Communist Bloc", Oriental Economist, April 1964, pp. 218-20.
Japan. (40)

In order to stabilise her export of plants to Soviet Union Japan has also to satisfy Soviet demands of plants with those embodying the latest technical know-how and complete automation, apart from the fact that the prices have to be kept low and quoted on deferred payment. In this respect also she faces stiff competition from European countries.

In the export of manufactured products, COCOM restrictions also come to play. Restrictions and limitations are also imposed when Japan intends to exchange technological

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40 The US policy allows short term credit financing of American exports to the Soviet European Bloc. On long-term credit financing, beyond 5 years, the US policy is to refuse to offer such terms and beyond that "to seek to persuade our allies to refrain from offering such longer-term credit financing for their own exports". However, Britain and other European countries have not strictly adhered to the US request and have granted longer credits. Britain has given government-guaranteed credit for 15 years for export of a chemical plant. West Germany has given a polythene plant for 8 years. Stanley D. Metzger, n. 28, pp. 1147-52.

Japan has given 5.5-6 years credit for ships, the down payment being 30%. In the case of plant and machinery, while there have been many cases of 5 year credits with a down payment of 20%, after 1963, there have been credits for 5-8 years, the down payment being 20-25%. In 1965 there was an instance of the supply of fertiliser plant costing $900 million on a credit of 8 years. Therefore, it may be safe to conclude that in recent years, after due consideration of a case, Japan has been extending credit up to 8 years even for plant and machinery. (On the basis of information obtained from the Delhi representative of the Export-Import Bank of Japan).
know-how, which was developed on the strength of US assistance. For example, export of thermo-generating plant to Sakhalin and micro-wave equipment, badly needed by Soviet Union, was blocked by licensing arrangements and COCOM regulations. Silicone and radar were considered to be military goods and were not even exhibited at the Moscow Fair. Over and above this, as in the case of oil pipe export to the Soviet Union, the US experts subtle pressure to prevent exports. Another factor to be borne in mind is that the Soviet Union is not a party to the International Patents Treaty and, therefore, there is no assurance that industrial properties would be given due protection. (41)

TRADE PROMOTION

The survey of trade with USSR, after the signing of the Trade and Payments Agreement in 1957, reveals that the volume of trade increased nearly sixteen times by 1963. It is particularly noticed that sustained attempts were made to put the trade relations on a firm footing by a frank exploration of mutual needs and supplies and a fuller exchange of information regarding trade and industry through

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trade fairs and visits of trade and industrial missions.

(42) The opening of a Japanese Industrial Sample Fair in Moscow, in August 1960, set the pace for the improvement of trade. This Fair was the largest of its kind organised by Japan overseas and was generously subsidised by Government, giving an indication of the increased official interest in trade with the Soviet Union. Japan's Minister of International Trade & Industry was present at the Fair. Another important aspect of the Fair was that not only trading firms but also all the big manufacturing industries had their stalls. This was followed by a Soviet Trade Fair at Tokyo in August 1961. In 1962, sixteen member Japanese Economic Mission, headed by Kawai Yoshinari, President of Komatsu Manufacturing Industries, visited Soviet Union for making a preliminary survey of the possible Japanese role in the development of Siberia. The Mission was apprised of the detailed Soviet plans of development of Siberia and it was clear that the USSR looked upon Japan as a major supplier of industrial plants.

42 For a complete list of the various Japanese Missions which visited Soviet Union and Soviet Missions which visited Japan in the years 1960-63, see

Nihon Soren Koryu Nenshi

1960, pp. 262-347.
1961, pp. 301-84.
1962, pp. 223-317.
1963, pp. 229-332.
and equipment needed for the development of the region. (43)
Therefore, the structure of trade with the Soviet Union, viz.,
exporting industrial products, plants, ships, etc. and
importing raw and processed materials, is on the same lines
as Japan's trade with developing countries and this pattern
is likely to continue.

SOVIET MOTIVATIONS FOR DEVELOPMENT OF TRADE

The pursuit of economic self-sufficiency is still
a major factor in Soviet trade with the "free world" and
accordingly her prime motivation for trade with the developed
countries of the "free world" is the acquisition of technology
and equipment. As soon as she finalised the details of her
seven year plan (1959-65), Khrushchev approached President
Eisenhower for complete equipment of plants and factories
for the production of consumer goods. American equipment
and technology was specifically asked for in the field of
petro-chemical industry. Soviet Union proposed to pay for
these by the sale of ores, lumber, paper products, etc.
President Eisenhower, however, turned down this offer, as
it was the US policy to limit the flow of technology and

Details of the Mission's talks and their achievements in "New Era in Soviet Japan
equipment to the Soviet Union, thereby refraining from contributing to the economic potential of the USSR. (44)

Accordingly, the USSR looked about for other suitable trading partners and found them in the developed countries of Europe as well as in Japan. All the same, she needed long-term credits for making these purchases, as she faced many economic problems in her foreign trade. The situation in which she was placed could be roughly summed up as follows.

Since mid-1950s, Soviet economic relations with the under-developed world increased rapidly, but she had to achieve them at the expense of long-term credits. These credits, which had not yet been drawn upon, amounting to nearly $2 billion in 1963, was a big drain on Soviet resources. Decline in Sino-Soviet trade also caused disruptions. Machinery and equipment allocated for export to Communist China could find outlets only in less developed areas, which seek to finance purchases with Soviet credits. The virtual elimination of food grain imports from China


For a full exposition of the US policy on trade with the Soviet Union and the Communist Bloc, see Secretary of State Dean Rusk's statement in the Foreign Relations Committee and Secretary of Commerce, Luther Hodges' statement in the same Committee. East-West Trade, n. 28, pp. 1-19, 53-64.

See how the sale of wheat in 1963 is justified. It is stated that it amounted to no more than 3½% of the normal Soviet grain production.
depleted her grain reserves. The failure of the 1963 harvest not only wiped out her export earnings from grain, but also forced her to use her gold reserves to buy grain. The cost of supporting Cuba was also becoming increasingly burdensome. By 1963, the Soviet Union also had to honour many of the credits obtained by her since 1959 from West European countries and unless a considerably large amount of credit on easier terms was forthcoming, repayments would be likely to exceed new loans, resulting in a substantial outflow of funds from the USSR. Therefore, her plans for the expansion of chemical and petro-chemical industries could not materialise without imports of up to date equipment and machinery sold on long-term credit terms. Unlike the USA, Japan as well as the West European countries needed the ores, crude petroleum, lumber, wood pulp and coal. (45) USA also could not persuade her allies to refrain from increasing their Soviet trade of non-strategic goods. (46)

FACTORS LEADING TO INCREASED JAPANESE TRADE WITH THE SOVIET UNION

If this was the Soviet position, what were the factors in the Japanese foreign trade, which led to Japan

45 Department of State Research Memorandum, 27 February 1964, "Soviet Trade with the Free World" in East West Trade, n. 28, pp. 257-71.

46 See admission of Secretary of Commerce, Hodges in East West Trade, n. 28, p. 103.
taking initiative in the promotion of trade with the Soviet Union. American policies had been crucial in assisting Japan in her economic recovery, providing markets in which Japan could earn her way and in helping Japan to find her place in the world's cooperative arrangements. The USA, as Japan's main trading partner, apart from other factors, had considerable influence on Japan's economic policies. Japan also responded by resorting to voluntary export controls on trade with the Communist Bloc, etc. However, most of the Japanese goods competed directly and actively with the American goods and this created a demand among American producers for restriction of Japanese imports of specified commodities. The pressure by this politically powerful producer group led to US Government asking Japan to introduce export quotas on her manufactured goods. Japan agreed to these measures as she felt that uncontrolled exports might finally lead to greater protectionist tendencies on the part of US producers and complete loss of markets. The introduction of "voluntary" export quotas was first started in cotton textiles, but it spread to other goods also. Although these import barriers only slowed down sales expansions and did not keep down sales to lower levels, the export quotas "tended to confirm a picture of USA as unwilling to buy from Japan in enough volume and on a sufficiently dependable basis to meet Japan's
Japan's needs. (47) Again, it appears that these quotas discriminated specifically against imports from Japan, while sharp increases of import of manufactured goods from Europe into USA did not call for a similar action. (48) This also hurt Japanese self-esteem.

With the integration of the European Economic Community (EEC), Japan began to fear that the Common Market would discriminate against Japanese goods. Japanese producers felt that producers in Common Market would become so efficient that Japan would not be able to compete with them even in the third markets, let alone Europe. Japan's

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47 For a detailed analysis of the American import barriers and Japanese reactions, see Hunsberger, n. 31, pp. 255-77, 357-62.
For a detailed study on the problem of cotton textile imports, see Ibid., pp. 278-337.
Also see, United States Tariff Commission, Post War Developments in Japan's Foreign Trade (Washington, 1958), Chs. 5 and 6.
Commenting on Japan-US talks on Trade and economic Affairs held at Hakone on 2-4 November 1961 the article concludes that Japan "came in for a rude awakening to the hard facts of international relations and realisation that American domestic problems are far more decisive for American trade policies than the principles of free trade and the pronouncements of American cooperation". Hunsberger also seems to agree about the scant respect shown by USA for free trading principles and also criticises USA's "strong arm tactics" in her bi-lateral negotiations.
Hunsberger, n. 31, p. 363.

48 Hunsberger, n. 31, pp. 357-8.
bargaining position with EEC was rather weak, as her share of EEC exports is less than 1 per cent. However, the greatest obstacle which Japan had to face in the expansion of her trade with EEC was the defensive attitude of the European countries against any possible market disruption due to inflow of cheap Japanese goods. (49) This factor again stood in the way of Japan being easily accepted as a full member of GATT. In spite of US sponsorship, the acceptance was slow and had to be won in stages by paying a

Ibid., pp. 189-229-31.
Also see UN Economic Commission for Asia and the Far East, Economic Survey of Asia and the Far East, 1962 (Bangkok, 1963), ch. 4, pp. 119-33.

It is analysed in this article how the extent of discrimination is quite extensive and affects those very items on which Japan relies for the bulk of her export to Europe. In value terms the total share of restricted exports amounts to 81 per cent of Japan's total exports to EEC area.
Ibid., p. 125.

Japan's fears about the attitudes of the Common Market were also shared by the Soviet Union who wanted to protect herself against any probable discrimination by the EEC.

Also see, Hisao Kanamori "The European Common Market and Japan's Trade", The Japan Annual of International Affairs 1962 (Tokyo), pp. 117-27.
price. (50) Here again, it is difficult to assess the effect which these restraints had on Japan's exports. Rather, as in the case of US import restraints, it might be argued that Japan accepted these restraints, as she felt that they were less damaging than the destructive measures, that the importing countries might take in response to unchecked flow of competitive goods. But the fact remains that Japan had to face this perennial problem of uncertainty about her export markets because of the protectionist tendencies of the trading countries, which were further strengthened by regional integration.

The ECAFE region also resorted to import restrictions against Japan, though their motivations were different. Their basic object was to protect their balance of payments and to wisely allocate their limited foreign exchange resources. With the exception of Ceylon and Malaya, import restrictions were applied non-discriminatorily with respect to geographical origin of imports, unless bilateral trade agreements

50 For a detailed account of Japan's struggles in this account, see Gardner Patterson, Discrimination in International Trade: The Policy Issues 1945-65 (Princeton 1966), pp. 272-322.

As is seen in the conclusion, the unilateral or bilateral restrictions against Japanese exports of certain commodities have gained a hazily qualified international approval in the GATT deliberations. 
Ibid., pp. 317-18.
Hunsberger, n. 31, pp. 231-40.
specified otherwise. (51) It also appears, complementary as they are, Japan and the ECAFE region cannot satisfy their needs only by increased trade among themselves but rather have to trade with the rest of the world.

Taking all these factors into account, it would appear that the expansion of Japan's trade with the Soviet Union was only part of the general pattern of her attempts to diversify her export markets. It is not implied here that Japan found in the Soviet Union markets for increased sales of those goods for which she had to undertake "voluntary export quotas", as Soviet Union did not ask for a good volume of light industrial products in her imports. (52)

The rupture of China's relations with the Soviet Union did not lead to spectacular increase of trade with the Soviet Union. Japan could not supply the primary products and food stuffs exported by China, nor did she need the type of machinery China used to import from Soviet Union. However, in recent years, there is a trend of


52 For a list of the principal Japanese products subject to export restraints, see Hunsberger, n. 31, p. 236.
Soviet Union increasing her import of textile products from Japan. The USSR formerly depended on China for these products. (53)

It appears that the Sino-Soviet rift has been more advantageous to Japan's China trade. Japan has also become one of the suppliers of the heavy machinery needed by China. This trade of course is subject to the CHINCOM trade restrictions and Japan has also to compete with the West European countries, which had entered the Chinese market in a big way much earlier. On the import side, Japan has found another supplier for coal, iron ore, salt, soyabean and corn.

Though trade with China has not adversely affected Japan's trade with the Soviet Union, in 1965, China replaced Soviet Union as Japan's major trading partner among the countries of the Communist Bloc. But Soviet Union regained this position in 1967. (54)

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53 Textile exports to Soviet Union occupied the following percentages of total Soviet exports from Japan:

1965 - 15.8 %, 1966 - 22.4 %, 1967, 31 %.


54 Japan's total trade with China and Soviet Union.

<table>
<thead>
<tr>
<th></th>
<th>1965</th>
<th>1966</th>
<th>1967</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>590</td>
<td>621</td>
<td>558</td>
</tr>
<tr>
<td>Soviet Union</td>
<td>409</td>
<td>514</td>
<td>610</td>
</tr>
</tbody>
</table>

In 1967 China took only 40 % of Japan's trade with the Communist Bloc, while the Soviet Union took 44 %.

Tsusho Hakusho 1968, n. 36, pp. 617-27.
Japan's trade with the Soviet Union, even in the post-war era, does not exceed 3 per cent of her total foreign trade. Although the Soviet Union is one of the Super-Powers, the pattern of trade existing between Japan and the Soviet Union is that of trade between a developed country and a developing country. When, therefore, we compare the post-war trade with the pre-war trade in commodity composition, we find that the Soviet Union continues to be the supplier of mineral fuel, metals, ores and other raw materials such as lumber. But in the case of Japanese exports to Soviet Union, plant and equipment, big ships, etc. reflecting Japan's technological advancement, have taken the place of the processed agricultural products and light industrial goods, which took a good share of her pre-war exports to Soviet Union. The small percentage of Japan's trade with the Soviet Union might give the impression that it is not a dire necessity. However, we should take into account the fact that to feed her expanding industrial complex, Japan needs more and more of raw materials and semi-finished products. Nearly 57.7 per cent of Japan's total import trade consists of raw cotton, metals, ores and petroleum. Crude petroleum ranks first in Japan's overall imports. Japan already imports 70 per cent of her energy requirements. It is expected that by 1975, this would increase to 82 per cent. The shortage of domestic resources and the growing
demand for energy sources, along with her technological growth, leads to Japan's exploration of oil resources all over the world. It is only natural that the unexplored resources of the Soviet Union are of great interest to Japan.

Japan has, however, realised that if she wants to import raw materials, she should also supply money and technology for the development of these resources. The new policy of "develop and import" has already been applied to other countries, as for example, mining of iron ore in Orissa, India. But these decisions cannot be taken by the business circles only. Increasing responsibility has to be taken by the Government, as it would involve the grant of government-guaranteed credit. A political decision has also to be taken for undertaking greater commitments to the Soviet Union. At present, among the various schemes which have been proposed by the USSR, negotiations are taking place on the following projects: (55)

1) Development of forest resources in the Soviet Far East.
2) Development of copper mines in Vdokan.
3) Development of oil fields in West Siberia.
4) Laying of pipelines between Nakhodka and West Siberia.
5) Development of natural gas in North Sakhalin.

55 Ibid., p. 629.
It is clear that Japan would undertake such projects only if she finds them to be good commercial propositions and the best of the alternatives. Geographical proximity of the Soviet sources, while a definite advantage, will not become a deciding factor, unless other terms are also advantageous to Japan. For example, in the case of copper, it appears, development of copper resources in Poland does not require the huge outlay of capital needed for the Soviet Vdokan copper mines. As regards natural gas, Japan has decided to import annually 1400 million cubic metres of natural gas from Alaska after 1969 and 2000 million cubic metres annually from Brunei after 1970. (56) While this does not mean that Japan has decided against the Soviet projects, this gives an indication about the other alternatives which Japan has.

An important issue, which would affect Japanese Soviet negotiations on Siberian development projects, is Japan's ability to supply long-term credit. The Soviet Union is asking for arrangements for selling processed products with the machinery and equipment imported from Japan. In other words, Japan would have to wait a long time and take the payment in kind. In spite of US persuasions and even contrary to USA's own policy, Japan had granted the most-favoured nation treatment and also offered five to seven year credits to the Soviet Union. The USA could not

56 Tsusho Hakusho 1968, n. 36, p. 236.
prevent the grant of longer credits by Britain and other European countries and Japan too is following suit. It is worth mentioning that, in 1961, Japan advanced more money to the Soviet Union than to any other country. (57) Therefore, Japan's hesitation about projects involving long-term credits appear to be not so much due to US pressure, but due to her own financial limitations and her own policy of priority allotments in credits. It may be stated that the USA's indirect pressure on Japan to give more positive assistance to South East Asian development, might restrict her credit facilities to the Soviet Union. However, the development and stability of South East Asia is desired by Japan herself and it is felt that the choice is made in her own national interest rather than under US pressure.

Japan has been showing greater independence of judgement in respect of her trade policies with the Communist Bloc, though she is still proceeding with caution. The big

57 The outstanding credits for the years ending 1960-68 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>$50,000</td>
</tr>
<tr>
<td>1961</td>
<td>$2.7 million</td>
</tr>
<tr>
<td>1962</td>
<td>$37.7</td>
</tr>
<tr>
<td>1963</td>
<td>$167.8</td>
</tr>
<tr>
<td>1964</td>
<td>$104.4</td>
</tr>
<tr>
<td>1965</td>
<td>$120.5</td>
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<tr>
<td>1966</td>
<td>$118.1</td>
</tr>
<tr>
<td>1967</td>
<td>$197.2</td>
</tr>
<tr>
<td>1968</td>
<td>$79.1</td>
</tr>
</tbody>
</table>

The credit extended to Soviet Union appears to be generally within 5% of the total credit extended by the Export-Import Bank of Japan, but in 1965 it went up to 9.8% (on the basis of information obtained from the Delhi Representative of the Export-Import Bank of Japan)
industries that were following too cautious a policy in respect of trade with the Communist Bloc are now openly showing more interest and it is they who can deliver the goods that Soviet Union needs. (58) The Soviet Union on her part is also interested in increasing her trade with Japan to implement successfully her five year plan (1966-71). With the introduction of the profit sharing scheme, the Soviet industries have been showing a higher rate of productivity and sales, indicating the success of the scheme. This, in turn, leads to greater demand of modern equipment. The new emphasis by the Soviet Union to take positive measures for increasing the standard of living of the people also opens up more avenues for supply of consumer goods by Japan. Once the development of Siberia gets under way, the demand for consumer goods might go up. (59) Japan has always a big

58 In 1962, representatives of major industries having close ties with the USA, such as, Iron & Steel, Petroleum and machinery did not join the Kawai Mission to the Soviet Union. Oriental Economist, October 1962, p. 579.
However, in later years, the big industries also sent their representatives to the Soviet Union, e.g., visits of Nagano Shigeo, President of Fuji Iron & Steel and Uemura Kogoro, Vice-Chairman of Keidanren in 1965 culminating in the formation of a Japan-Soviet Economic Committee headed by Adachi Tadashi, Chairman of Japan Chamber of Commerce and Industry, comprising of 35 top financiers, which held its first meeting at Tokyo from 14-25 March 1966. Oriental Economist, May 1966, pp. 263-4.
The big companies also cast off their "dummy companies" for trading with the Soviet Union and started trading in their own names. Oriental Economist, November 1965, p. 637.

59 Tsusho Hakusho 1968, n. 36, p. 625,
import surplus with the Soviet Union and in the recent trade talks, she has been insisting that Soviet Union should buy more consumer goods from her. The non-communist world is taking an increased share of the Soviet foreign trade, nearly 33.5 per cent, while the trade within the Communist Bloc is decreasing. With the worsening of the Sino-Soviet rift, Soviet trade with China came down to 1.9 per cent of her total foreign trade in 1966. While Japan finds it difficult to face the competition of Germany, Britain, Italy, etc., who are in a position to offer longer credits and the most modern equipment at cheaper prices, the prospects of increased exports to Soviet Union are not bleak. The Soviet Union herself is taking keener interest. She has permitted the stationing of Japanese trade representatives in Moscow to facilitate on the spot survey, etc. Port and harbour facilities and marine and transportation services are proposed to be improved. A Consular Treaty has been concluded between the two countries, the Japanese Consul being placed at Nakodhka and the Soviet Consul in Sapporo. A Japan–Soviet Technical Cooperation Agreement was signed on 5 June 1967 at Moscow. (60) On the part of the Soviet Union, apart from economic considerations, political motives arising from deterioration of her relations with China,

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60 Soren Kankei Juyo Jiko Nenshi 1967, n. 55, pp. 119, 121, 127.
cannot be ruled out, while analysing the increasing interest displayed by the Soviet Union in trade with Japan.

The more flexible and friendly attitude shown by the Soviet Union along with the rising interest exhibited by Japan's big industrialists in Soviet trade might induce the Japanese Government to explore ways and means of cutting through the present deadlock in the improvement of trade with the Soviet Union. Unlike Japan's relations with China, her relations with Soviet Union are placed on a firmer basis, even though the Peace Treaty has yet to be signed. Increased trade with the Soviet Union may not cause any economic damage to her trade with the USA unless there is considerable expansion of her trade in coal and petroleum. There is a growing movement within the USA itself to relax the trade restrictions and have freer trade relations with the East European countries and the USSR. There is a feeling that the longer the USA stays out of the East European market, the more difficult it will be for her to achieve the economic and political benefits the US Government hopes for. The Special Committee, appointed by the President of the USA to consider the question in 1965, had recommended a more liberal policy, as trade was one of the few channels available for constructive contacts with nations which show hostile attitudes. (61) The USA should, therefore, have enough

61 Donald V. Petroni, "Doing Business in East European Countries" in US Senate Committee on Banking and Currency,
confidence in her ally and permit Japan to formulate her own trade policies with the Communist Bloc, while Japan on her part should be careful enough to shape a trade policy which would give her sufficient manoeuvrability, in order that she does not become subject to the political pressures of the USSR.

61 contd.


"Report to the President of the Special Committee on US Trade relations with East European Countries and the Soviet Union in May, 1965.
Ibid., Part 2, pp. 795-818.
President Lyndon Johnson in his State of Union Message on 12 January 1966 stated

"I recommend that you make it possible to expand trade between the United States and Eastern Europe and the Soviet Union".

Ibid., part 2, p. 794.

Recently, USA has even permitted subsidiaries and affiliates of US firms abroad to sell non-strategic goods to China and buy Chinese products for re-selling in foreign markets, though direct trade with China still remains prohibited.

Statesman (Delhi), 25 December 1969.