NAVAL POSTGRADUATE SCHOOL
Monterey, California

THESIS

JAPAN-USSR
TRADE, TECHNOLOGY TRANSFER, AND
IMPLICATIONS FOR U.S.

by

David L. Trombley

June 1988

Thesis Advisor Robert L. Looney

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**Title:** JAPAN-USSR: TRADE, TECHNOLOGY TRANSFER, AND IMPLICATIONS FOR U.S.

**Author:** Tromble, David L.

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(Block 19 continued)

promote trade with Japan whenever it can achieve a significant advantage toward modernization and revitalization of the Soviet economy.
Japan-USSR
Trade, Technology Transfer, and Implications for U.S.

by

David L. Trombley
Captain, United States Army
B.M., Pacific Lutheran University, 1977
M.M., University of South Florida, 1979

Submitted in partial fulfillment of the
requirements for the degree of

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from the

NAVAL POSTGRADUATE SCHOOL
June 1988

Author: David L. Trombley

Approved by: Robert E. Looney, Thesis Advisor
Frank M. Teti, Second Reader
James J. Tritten, Chairman,
National Security Affairs
Kneale T. Marshall,
Dean of Information and Policy Sciences
ABSTRACT

This thesis examines trade and technology transfer between the Soviet Union and Japan. The paper discusses the subject from the perspective of both Japan and the USSR and considers the impact of the United States' and other nations' influence on their bilateral relationship. The thesis delineates the affect of political, military, and socio-psychological factors on the economic foundation of the issue. The USSR and Japan are strongly complementary in purely economic terms, but trade is particularly hindered by political and strategic considerations. Both nations claim rightful ownership of the "Northern Territorial" -a small group of islands between Japan's Hokkaido and the USSR's Kurile Islands. Japan's government will not promote trade until the islands are returned; the USSR will not give up the islands, which are a part of its strategic nuclear bastion plan. Nonetheless, Japan's private business sector will push for as much trade as possible with the USSR, separating economics from politics. The USSR will promote trade with Japan whenever it can achieve a significant advantage toward modernization and revitalization of the Soviet economy.
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I. INTRODUCTION

A. OBJECTIVES AND METHODOLOGY

The Soviet Union has shown evidence of a major economic revitalization initiative since Mikhail Gorbachev became General Secretary of the Politburo in 1985. Although the need for action was undoubtedly evident and under discussion prior to his accession to the post, the Western democratic world has identified the ensuing reforms with Gorbachev.

Western analysts, in the past, have gloated and taken great satisfaction in the stagnating condition of the Soviet centrally-planned economy. The current wave of reforms have shaken up both the domestic status quo of the USSR and smug analysts around the globe. No earth-shaking advances have yet been noted in the Soviet economy, but the Kremlin's emphasis on root problems rather than symptoms suggests that the USSR may actually cure its economic illness. Demonstrated Soviet economic success, instead of mere talk, would have tremendous impact on the attractiveness of Soviet socialism worldwide.

Of all the world's developed nations, Japan has demonstrated the most consistent record of economic success recently. Japan has amazed the world by its creativity, its ability to promote productivity, its efficiency, and by the quality of its products. Japanese researchers and developers have put Japan in the forefront of biotechnology, electronics, automation, and artificial intelligence. If the USSR were able to enlist the assistance of Japan in modernizing its facilities and developing the conditions for increased productivity, the world could witness a phenomenal leap in the status of the USSR's economy.

The implications for the United States are fairly obvious. The United States is beginning to reorganize its economic mentality as well, to recover from a complacency-driven decline in its own competitiveness. U.S. global defense expenditures, already very high, could require exponential expansion if the Soviet Union successfully acquired and integrated Japanese products and know-how...and applied them to its military.

What are the chances that Japan will readily share its expertise with the USSR? The basic supposition of this paper is that Japan will become increasingly involved in...
trade with the USSR, marketing its products, production techniques, and managerial methods.

Japanese-Soviet trade will necessarily be limited by the security issues of opposing blocs—socialism and capitalism. This paper will examine the positive and negative affects of political, military, and psycho-social influences on the potential for increased bilateral economic ties. Seemingly complementary economic factors sometimes become inconsequential when considered in light of these related aspects.

As the United States is the ultimate guarantor of Japan's security, American relations with Japan have direct implications for the issue. Examination of the economic, political, and security issues involving the United States' affect on Soviet-Japanese relations will provide a more distinct global focus on the question.

Each chapter will examine the inter-relationship of the Soviet-Japanese bilateral issues and international inputs to the situation. Historical indicators will be examined in the context of their significance to current developments.

I use scientific knowledge as much as possible in exploring the parameters of Soviet-Japanese trade. Inevitably, in questions involving political science, one is required to make assumptions and judgements based on trends. This examination of the subject will use scientific process to establish rational assumptions where facts are unavailable or inappropriate.

When available, empirical evidence such as official statistics and documents are discussed, rather than analyses or compilations by other writers. Although I attempt to maintain a non-normative approach to the subject, expression of my own evaluations are clearly evident in the paper. Again, the normative nature of political issues requires an individual to make assumptions and to draw conclusions.

Because of the individualistic character of assumptions, the study's evidence may provide another researcher with a different conclusion. The "weight" of importance given to various aspects of the question determines the researcher's final judgement. Although the evidence of specific portions of the study may be transmissible, the overall complexity of the cumulative parts suggests that a different ultimate conclusion is possible.

However, having stated the above caveat, I believe that my conclusion is correct. The supporting evidence is clear. Empirical generalizations will be used to tie the various aspects of the study together. Case studies are used to demonstrate how the chapter topics interact in "snapshot" situations.
The combination of scientific evidence and logical assumptions explains the reasons for historical events. This method of examination allows reasonable delineation of trends. Recognition of trends makes prediction possible.

In this study of Japanese-Soviet relations, the weight of the various aspects differs for each nation in recognizing its internal balance for improved trade potential. Considering the volatile possibilities of the current Soviet economic reforms, many of the Soviet assumptions could change, literally overnight. The secretive nature of the Politburo, and rumors of dissatisfaction with the new Soviet direction, could culminate in a Khrushchev-type ouster of Gorbachev. A change in the power composition of the Politburo could radically alter on-going plans and projects.

In that sense, this study is truly provisional. Otherwise, disclosure of new details should not significantly alter the fundamental proposition and conclusion of this research.

B. OVERVIEW

The USSR and Japan appear to be almost perfectly suited for trade. The USSR has lots of raw materials and natural resources which Japan needs. Japan is a world leader in high-technology applications, in industrial modernization, and in innovative and efficient managerial techniques—all of which the USSR’s economy needs. They are also neighbors geographically. But, there are several factors which prohibit free exchange between these two potentially complementary nations.

- **Economics.** The USSR has a shortage of convertible hard-currency with which to buy Western goods. Consequently, the USSR likes “barter” arrangements, whereas Japan prefers cash. The USSR usually demands subsidized credit for trade, while Japan uses its Export-Import Bank to maintain control of its private businessmen. The Soviet Union’s centrally-planned economy has a strong foundation in governmental control, which inhibits the diffusion of new ideas and modern equipment throughout the system. The current Soviet economic “reforms” are new, and consequently unstable—heavy investment in the Soviet economy is risky at present.

- **Technology Transfer.** Japan is a member of the Coordinating Committee for Export Controls (CoCom). This Western group attempts to control Soviet access to militarily significant technologies and equipment by determining a list of items which are restricted from export to the West’s adversary—the Soviet Union. The USSR attempts to acquire its perceived requirements, regardless of the CoCom restrictions.

- **Politics.** Japan limits its imports of Soviet resources and raw materials because of the political implications of economic vulnerability to an adversary. The USSR and Japan have never concluded a peace treaty following WW II. Japan
refuses to consider a peace treaty until the USSR returns a group of islands northwest of Hokkaido which Japan considers to be rightfully its territory. (The disputed islands are referred to as the Northern Territories. See Figure 1.1)

- Military. The USSR considers the “Northern Territories” as its territory. The islands play an important role in the Soviets’ Far East military strategy. The Soviet Union continually denounces Japan’s domestic “remilitarization” and its “subjection” to the United States. Japan’s security against potential Soviet aggression is guaranteed by its close cooperation within the United States’ global military strategy.

- Socio-Psychological. Russian historical culture is not conducive to promotion of trade with actors outside its sphere of influence. Japan’s past experience has shown the USSR to be stubborn and unpredictable. Diversity of the Japanese and Russian cultures implies that significant modification is necessary to apply culturally-based, successful Japanese managerial techniques to the workers of the USSR. Soviets, from workers through elites, are resistant to change.

Mutual confidence is necessary for a successful partnership. Japan cannot be confident that the USSR will continue its present course of detente. Soviet ideology still envisions the “ultimate victory of socialism”. The CPSU’s (Communist Party of the Soviet Union) policy is oriented toward that goal. Clausewitz’s statement that “war is a continuation of politics”, and Lenin’s addition, “by violent means”, provides the foundation for the Soviet drive toward the victory of one or the other of the opposing socio-political systems. In 1979, Marshal Ogarkov reiterated that military strategy is subordinate to politics.\(^1\)

The Soviets perceive the “war” as ongoing, even when active military action is not apparent. The war against Capitalism includes the economic and political arenas. The CPSU is using its political peace initiatives to diminish the military buildup of democratic Western nations. Its success in politics allows the USSR to concentrate on the repair of its economy. Relaxed military and political pressure will enable the USSR to afford and have access to the equipment desired for modernization.

In the case to be examined--the USSR and Japan--dominance in the relationship shifts from one nation to the other in accordance with the perceived world political situation. The USSR is a military superpower; Japan is an economic giant. Since the Soviet Union has undertaken a peace offensive, Japan has gained relatively greater perceived power in the relationship. However, whenever the USSR reverts to its capabilities as a military superpower, Japan is left to rely primarily on the support of

Figure 1.1 USSR-Japan Map.
the military power of the United States. Therefore, Japan’s maintenance of Western alliances and friendships is crucial to its long-term prospects as a democratic society.

The question of trade and technology transfer revolves around a number of related considerations. Broadly speaking, the USSR would benefit by access to high-quality goods and equipment as well as high-technology manufacturing know-how from Japan. The Soviets claim that they are actually self-sufficient but will deal with foreign capitalists for convenience sake. Japan is driven toward trade with the Soviet Union for three basic reasons:

1. The Soviets have abundant natural resources, including energy sources, which the Japanese need.
2. The USSR has a potentially large market for Japanese manufactured goods.
3. The Soviet Union could become politically and militarily troublesome if bilateral Soviet-Japanese relations were poor.

These concerns will be examined in greater detail below. The discussion will examine economic, political, military, and socio-psychological aspects of the situation.

Definitions of key concepts are important for clarity of the following discussion. “Trade” is normally understood as the sale or barter of goods or services between nations. Definitions pertinent to the high-technology question are simple, but must be clarified.2 “Science” is the pursuit of knowledge. “Research” generally applies the pursuit of knowledge to a specific area of interest. Once an idea has been defined in research, the idea must be developed. “Technology” is the know-how required to translate research knowledge into products. Generally, the transfer of a high-technology product satisfies only a short-term need, whereas the transfer of the actual technology enables the receiving nation to produce the high-technology products itself.

---

II. ECONOMICS

The trade and technology transfer question would be relatively simple if only economics were involved. The USSR has abundant natural resources available in relative proximity to Japan. Japan needs the resources. Japan is an acknowledged giant in the fields of automation, electronics, and productivity. The Soviet economy needs the stimulus which these Japanese strengths could provide. Simple supply-and-demand considerations suggest strong trade and technology transfer possibilities between the two actors.

A. LIMITING FACTORS OF JAPAN-USSR TRADE

1. Japanese Commercial Policy

As will be illustrated throughout this investigation, Japan’s commercial policy is an enigmatic concoction of emotional and rational inputs. Emotionally, the Japanese tend to shy away from dealing with the Soviets. For the Japanese, historical Russian imperialism has evolved into an unpredictable, fearsome, threatening Soviet Union. Rationally, the USSR offers potentially abundant natural resources as well as a vast export market. The USSR’s marketing potential suggests a means for continued Japanese export and economic growth, and implies reduced tensions through economic detente.

2. Soviet Commercial Policy

The Soviet Union is displaying a new face to the world. General Secretary Gorbachev has come into the world spotlight as the Soviet leader who can bring security to the globe. Gorbachev’s primary goal in all the excitement surrounding openness (glasnost), restructuring (perestroika), and democratization is to make the Soviet economy well.

Amidst extensive rhetoric and a few tangible domestic changes, Soviet commercial policy toward foreign trade has changed relatively little. The Soviet economic infrastructure and central-planning network need modernization, and productivity needs stimulation. The Kremlin will balance its plan for economic revival between attainable requirements from within its empire and low-risk opportunities with the capitalist West.
B. ECONOMIC GROWTH STATUS

1. Japan

A combination of strengths and vulnerabilities makes Japan a neighbor on which the USSR can capitalize, if appropriate diplomacy is utilized. It is the world’s leader in many areas of technological progress, specifically, in semiconductors (the key to modern electronics and computers)\(^3\) and robotics.\(^4\) According to the CMEA’s “Comprehensive Program of Scientific and Technological Progress Up to the Year 2000” (December 1985), these are the first two of the five pillars for the transformation of the national economies of the socialist bloc.\(^5\)

The world is enthralled with Japan’s economic success. Japan has the free world’s second largest GNP and the world’s highest average annual rate of growth in real GNP.\(^6\) Although it is economically powerful, Japan must import most of the minerals, metals, energy, and food which it consumes and utilizes.\(^7\) Its vulnerability is sometimes overlooked due to the size of its trade surplus. However, a closer look at Japan’s condition since 1981 illustrates its dependence on foodstuffs, raw materials, and fuels from outside sources (see Table 1).\(^8\)

Japan’s dependence on fuels has decreased considerably, but its reliance on food and raw materials has increased. Recent statistics clarify the extent of Japan’s reliance on external sources of raw materials. In 1985, Japan imported over 95% of all the iron ore, copper, nickel, bauxite, manganese, chromium, tin, and cobalt which it consumed.\(^9\) Importing adequate provisions of foodstuffs appears to be another likely continuing trend in Japan’s vulnerability to external pressures.

Further examination of the decreasing trend in “fuels” dependency reveals that Japan is nonetheless highly dependent on energy imports as well (see Table 2).\(^10\)

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\(^7\) Ibid., pp. 17, 130, 131.

\(^8\) Ibid., p. 90.

\(^9\) Ibid., p. 17.

\(^10\) Dr. Miguel S. Wionczek, “The Security Implications of Changing Energy,
Since 1970, Japan has shown a positive trend in energy production only in energy sources of hydro/nuclear power. In 1985, 86% of Japan’s energy consumption was from non-hydro/nuclear sources. Of that amount, 96.5% was imported.

The principles of trade dictate that Japan must provide payment for these vital imports while offering incentives for the suppliers to continue providing these necessities. Japan’s future, therefore, rests on the desirability and affordability of its export products to foreign markets. However, its reliance on trade with the socialist bloc is tempered by the risks inherent in providing the Communists with the potential for manipulation by economic leverage. Unfortunately for the USSR, Japan currently


does not need Soviet resources as badly as it did in the mid-1970's. The Japanese have been careful to limit their dependence on Soviet inputs into their economy.\textsuperscript{12}

Although from 1980-1985 Japan's exports to Communist countries grew from $9.5 billion to $16.6 billion while its imports from Communist countries only grew from $6.9 billion to $8.6 billion,\textsuperscript{13} Japan's overall reliance on trade with the USSR remains very low. In 1984 Japan imported only 1\% of its total imports from the Soviet Union, and exported only 1.5\% of its total exports to the USSR.\textsuperscript{14} In 1985, the USSR's hard-currency trade deficit with Japan grew to $1.63 billion from $1.49 billion in 1984.\textsuperscript{15}

Obviously, the potential for Japan to turn to the USSR for raw materials, energy sources, and foodstuffs (in exchange for goods, services, and technology) is very real. It is also evident that although Japan has managed to find alternative sources, its economic growth limitations, as a result of current disagreements with other Western nations, could cause Japan to place greater confidence in the USSR. Should a scenario develop whereby Japan would be forced to choose between slowed economic growth and increased dependence/cooperation with the USSR, availability of Soviet resources could provide the Russians with beneficial economic and political leverage. The desire for continued high levels of economic growth may drive Japan toward greater willingness to trade security risks for economic advantage.

2. USSR

The Soviet government economy is not well. Since 1966 the Five Year Plans (FYP) have failed to meet their goals (see Table 3).\textsuperscript{16} The leadership of the CPSU realizes that it must make some serious changes to make the economy effective. In 1986 the Party established its "Long Term Plan to the Year 2000". In order to meet its goals, the USSR plans to increase its growth rate in the 1986-1990 (Twelfth) Five Year Plan to between 3.54 - 4.06\% during this "period of adjustment".\textsuperscript{17} In this timeframe, as part of the economic goal, the central planners envision significant accomplishments:


\textsuperscript{13}CIA, \textit{Handbook of Economic Statistics, 1986}, p. 84.

\textsuperscript{14}Ibid., p. 97.

\textsuperscript{15}Ibid., p. 73.

\textsuperscript{16}Ibid., p. 64.

\textsuperscript{17}Takayama Satoshi, "The Soviet Union Smiles at Japan," \textit{Japan Quarterly}, April-June 1986, pp. 133-134.
TABLE 3
FIVE YEAR PLANS

USSR: Planned and Actual Economic Growth

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<td>GNP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Plan</td>
<td>6.5 to 7.0</td>
<td>5.8</td>
<td>5.0</td>
<td>4.0</td>
<td>3.5 to 4.0</td>
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<tr>
<td>Actual</td>
<td>5.0</td>
<td>3.0</td>
<td>2.3</td>
<td>2.0</td>
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</tr>
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<td>Industry</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Plan</td>
<td>8.2</td>
<td>8.0</td>
<td>6.5</td>
<td>4.9</td>
<td>3.9 to 4.4</td>
</tr>
<tr>
<td>Actual</td>
<td>6.2</td>
<td>5.4</td>
<td>2.6</td>
<td>2.0</td>
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<td>Agriculture</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Plan</td>
<td>5.5</td>
<td>3.7</td>
<td>5.0</td>
<td>5.0</td>
<td>2.8 to 3.4</td>
</tr>
<tr>
<td>Actual</td>
<td>3.7</td>
<td>-0.4</td>
<td>1.0</td>
<td>2.0</td>
<td>NA</td>
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- labor productivity should increase 2.3 to 2.5 times;
- consumption of materials per unit of production should be reduced by 4 to 5 percent;
- energy consumption per unit of production should be reduced by 7 to 9 percent.

After 1991, the projected growth rate will jump to 5.5% --as soon as the economic changes of the 12th FYP have been solidified.

To achieve its ultimate economic goal of surpassing the West, the USSR must first catch up to it. Attempts to untangle organizational bottle-necks, to modernize equipment and managerial methods, and to improve the standard of living were initiated as early as the late 1960's under Brezhnev.\(^\text{18}\) Although the desire for change existed, the CPSU leadership was unwilling to risk the shake-ups required to energize significant changes. The current reform movement is driven by the necessity to stimulate economic growth.

Since the end of WWII, the Soviet leadership has traditionally emphasized "extensive" development as its economic strategy (See Table 4).\(^\text{19}\)

From the table one can readily see that the growth rate of labor productivity has been declining faster than the GNP's rate of decline for two decades. The slight improvement in "Industrial Total Factor Productivity", from capital investments


\(^{19}\)Ibid., p. 397.
TABLE 4
AVERAGE ANNUAL RATES OF GROWTH (%)

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<tr>
<td>Gross National Product (1)</td>
<td>5.0</td>
<td>5.2</td>
<td>3.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Labor Productivity (2)</td>
<td>3.4</td>
<td>3.2</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Total Factor Productivity (3)</td>
<td>0.6</td>
<td>1.1</td>
<td>-0.5</td>
<td>-0.8</td>
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<tr>
<td>Industrial Production</td>
<td>6.6</td>
<td>6.3</td>
<td>5.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Industr Labor Productivity (2)</td>
<td>3.6</td>
<td>3.1</td>
<td>4.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Industrial Total Factor Productivity (4)</td>
<td>-0.1</td>
<td>0.5</td>
<td>1.1</td>
<td>-0.6</td>
</tr>
</tbody>
</table>

Notes:
1. Based on indexes of GNP, by sector of origin, at factor cost.
2. Output per man-hour.
3. Output per combined input of man-hours, capital and land.
4. Output per combined inputs of man-hours and capital.

between 1960-75, reached the level of diminishing returns in 1970-75. Declining growth rates followed, across the board, in the period 1975-80.

The leaders must diffuse any detected discontent to prevent strikes or decreased productivity. The centralized plans are already stretched in the goals which they expect to achieve. Decreased productivity would further disrupt the planning cycle.

Measures must be instituted, then, to stimulate productivity. The centrally-planned system of allocation is able to distribute available land and capital equipment with relative ease. However, apportioning and energizing labor resources as desired, and compensating for manpower shortages will require a new set of incentives--the old ones have proven unsuccessful. Requiring a longer work-week would be counterproductive. The Soviet workers value their free time highly--greater production would not be achieved by increasing the 41-hour work-week.

The new "plan" being proposed aims to halt the deterioration of productivity, and ultimately to see positive growth in this vital area. The plan revolves around four basic principles:
1. to promote better work discipline;
2. to increase job satisfaction;
3. to reduce worker absence due to alcohol consumption;
4. to increase incentives to be productive.

20Ibid., pp. 405-419.
In the first nine months of 1986 factory productivity actually exceeded targets set by the central planning process. The 1986 increase in productivity is attributed to the success of General Secretary Gorbachev's drive for efficiency.

The new leadership, under Secretary Gorbachev, is aware that one effective incentive may be increased output in the consumer sector. The Soviet workers are becoming increasingly aware of the disparity between their standard of living and the standard of living in the capitalist countries. All the ideology in the world has to ultimately face reality; the workers are ready to receive some of the long-promised benefits of their efforts. Continued deprivation of the rewards of the system will, at a minimum, continue the lack of motivation which contributes to low productivity.

From a demographic perspective, the labor force size in the USSR is not keeping pace with the demand for increased output. Even if intensive economic measures are effective, the USSR will not be able to meet its optimistic goals without reducing labor-intensity through modernization and technological change. Consequently, one of the most reasonable solutions to rapid "catch-up" in the economy is the conversion to decreased dependence on labor-intensive production.

Modernization toward capital-intensive production could have far-reaching consequences. Not only could modern techniques, equipment, and technology increase efficiency, they could possibly also increase the number of available production facilities by allowing greater dispersion of labor. Development of remote areas could then become more likely as a lower quota for workers (per facility) would exist. All these grandiose projections depend on a rapid acceleration of Soviet progress in scientific and technological methods (as iterated in the CMEA Plan to the Year 2000).

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24 Garvey and Richardson, "Robotics Finds Applications in Ground Warfare," *Military Electronics: Countermeasures*, March 1983, pp. 85-86; Abram Bergson, "Can the Soviet Slowdown Be Reversed?" *Challenge*, November-December 1981, pp. 38-41. The argument that labor-saving devices diminish a labor-intensive nation's comparative advantage does not apply in the Soviet case. The Soviet Union is not a free-trade system; its central planning decides where proportions of inputs will be distributed. The dispersion of labor to a variety of non-labor-intensive projects can better utilize the available labor force, if planning, labor incentives, and training are conducted in accordance with capital-intensive goals.
The West, and Japan in particular, are important to Soviet plans for modernization because of the quality and efficiency of Western capital goods, as well. Imported Japanese capital equipment is generally more efficient than Soviet domestic capital due to Japan's superior technology and quality control.25

C. SOVIET REFORMS

The current reforms in Soviet economics began to appear shortly after Brezhnev's death. Gorbachev's elevation to the post of CPSU General Secretary was consistent with economic clues indicated during the brief leadership terms of Andropov and Chernenko. The leadership had been advised that declining growth rates were due to systemic bottlenecks and low productivity of the work force. In 1983 Andropov, believing what Soviet economists and managers told him, began a crackdown on corruption among bureaucrats. He appealed to workers, advising them that their productivity must increase so that benefits could increase.26

At Andropov's funeral, Chernenko stressed the importance of the CPSU's paying attention to the thoughts of the masses.27 Such statements could be construed as pure rhetoric. In retrospect, however, they appear indicative of a new Party emphasis on the standard of living of the masses. While capitalist "infection" was blamed for Soviet youths' aspiration for material goods,28 the accompanying "parasitical idleness of some young people, (and) their unwillingness to work where they are needed"29 was a catalyst for the 1984 education reform law.

The Soviet 1984 education reform aimed at solving the productivity problem by restructuring the program of study to unify general education with occupational education. An extra year of education was added for all youth. As well as increasing the time specifically dedicated to labor education in school, expanded time is given to on-the-job training and holiday work experience.30

26Barghoorn and Remington, Politics in the USSR, p. 113.
27Ibid., p. 56.
28Ibid., pp. 139-140.
30Barghoorn and Remington, Politics in the USSR, pp. 139-140. Soviet children now start school at six years old rather than seven.
From the Western perspective, Secretary Gorbachev has begun the risk-taking. His policies of reform are true to the economic priorities inherent in Marxism. One can trace the objectives of his reforms to the pre-eminence of economics among the factors which control history.

Economically, the USSR would benefit from modernizing trade with Japan. As discussed earlier, quantitative growth has not been the answer to the USSR's problems. Due to obviously declining economic growth rates since 1960 (See Table 4), the Kremlin has realized that the centrally-planned system needs domestic reform and help from external sources. Outside the socialist community, Western assistance is needed for rapid modernization—the Japanese are the world's most effective modernizers.

Within the Politburo's realm of control, domestic reform is necessary for the assimilation of Western assistance. Qualitative changes in inputs and the factors of production (labor, capital, and land) are inescapable. Until "intensive" development is accomplished, the USSR will continue to trail the West economically. Organizational restructuring is also necessary to provide the networks for increased efficiency within the centrally planned system.

Being mindful of the American public's ability to manipulate its leaders, the Politburo has embarked on a political campaign of detente and peace initiatives. The Politburo's spokesman is proposing peace initiatives which he knows are radical, but which he also understands will arouse Western peaceful sentiment and put extreme political pressure on Western leaders, and the American President, in particular, to make concessions. Reduction of the potential for conflict between the East and West will serve the Kremlin's current priority of economic recuperation. A lesser threat to the USSR will enable the planners to redistribute more resources from the defense

32 Ibid., pp. O2-O3.
33 During Gorbachev's 28 July 1986 "Vladivostok Speech" (Foreign Broadcast Information Service (USSR), 29 July 1986, p. R17), he suggested that Hiroshima be used as the meeting place for a Pacific collective security conference. He said that the location would be appropriate for a peace conference since it was "the first victim of the atomic evil". The Japanese promptly protested his linking of Japan with anti-U.S. overtones, and emphasized that they had never discussed hosting such a conference in Hiroshima.
sector to consumers and domestic investment. The General Secretary is psychologically preparing the masses for greater access to Western information through domestic "glasnost". Additionally, relaxation of cultural and personal freedom controls, and projected economic and political reforms, are causing Americans to forget fundamentals. From the Soviet perspective, we are part of "opposing systems"; the inevitable result of the evolution of society will be the total victory of socialism over capitalism, whether the confrontation is military, economic, or political. While the pressure is turned away from the "new, friendly Soviets" and toward extension of "good will" by the West, the Soviets will gain some important ground through foreign policy initiatives:

- Relaxed tension will allow the USSR to decrease its military emphasis. Factors of production can then be diverted to the economy.
- Detente efforts will further allow Soviet acquisition of previously unattainable transfers of technology and equipment.

Eventually, the projected upswing in economic stability and growth will allow the Soviets to resume their military buildup.

1. Restructuring ("Perestroika")

Restructuring has begun within the structure of the Soviet economy. The changes being initiated are expected to reduce bottlenecks in production and supply. In the past, the "vertical" organization of the State Committees has caused significant delay, inefficiency, and waste within the system (see Figure 2.1). The slowness and poor communication within the system's bureaucracy has encouraged hoarding of supplies and overemployment at the enterprise level (factories, plants, works), and juggling of data from the enterprise through state committee levels.

Waste has previously amounted to 20% of output at the junction of ministries. Suppliers and producers have been separated by the system. Gorbachev's proposed restructuring would abolish the multi-layered ministries and create state committees which would locate inter-related enterprises "under one roof". Creation of new "horizontal" ministries would heal many of the current system's afflictions. The

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38 "Pravda Publishes Draft Law on State Enterprises", FBIS (USSR, National
new idea cannot be implemented overnight, but the alterations are already in progress.\textsuperscript{39}

An important new category has been introduced into the system -- \textit{profit}. In selected enterprises, the new law of profitability has already been adopted. According to the concept, whatever an enterprise earns belongs to the enterprise to distribute\textsuperscript{40} among three categories:

1. The State Bank receives revenues;
2. The enterprise invests in modernization of production and social development;
3. Workers receive bonuses for noteworthy achievement.\textsuperscript{41}

Ultimately, unprofitable enterprises will be closed\textsuperscript{42} (!) under the new law. Implications are significant in terms of the responsibilities of the socialist state for ensured employment. Although only one enterprise has been closed so far (a Leningrad construction company), the psychological impact is enormous. This

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
State Planning Committee & State Committee of Material and Technical Supply & State Committee of Labor and Social Problems & State Bank of the USSR \\
"GOSPLAN" & "GOSSNAB" & "GOSSBANK" & \\
USSR Ministries & USSR Ministries & USSR Ministries & USSR Ministries \\
Republic Ministries & Republic Ministries & Republic Ministries & Republic Ministries \\
Industrial Associations-Trusts & Industrial Associations-Trusts & Industrial Associations-Trusts & Industrial Associations-Trusts \\
Enterprises & Enterprises & Enterprises & Enterprises \\
\hline
\end{tabular}
\caption{Centralized Planning in the Soviet Economy.}
\end{table}

\textsuperscript{39}Ibid., pp. S1-S27.
\textsuperscript{40}Ibid., p. S2.
\textsuperscript{41}Ibid., pp. S3, S17-S18. The law dictates that not less than 25-30\% of the profits be distributed to the workers as incentive pay (annual, quarterly, and monthly). Distribution is decided by the enterprise director and is allotted in accordance with individual rather than group merit.
\textsuperscript{42}Ibid., pp. S26-S27.
"revolutionary" occurrence implies Gorbachev's willingness to employ startling changes, where necessary, to achieve the objective of economic revival (beyond mere national survival).

Legislation has been enacted to promote greater incentives for private enterprise (the "second economy"),\textsuperscript{43} to replace some "centralized interference" bureaus with direct business links between firms,\textsuperscript{44} and even to allow joint ventures with capitalists into the USSR.\textsuperscript{45} The government still officially controls supplies, so all business activities ultimately depend on governmental control of resources. Although group contracts include a citizen's government employment, cooperatives and private business are considered to be an individual's additional work. That is, all persons involved in cooperative or private enterprise must also hold a full-time government job, or be pensioners.

The new openness toward, and legislation of, entrepreneurial ventures has several objectives:\textsuperscript{46}

1. To help satisfy the demand for goods and services at the level of the masses\textsuperscript{47}
2. To circulate money piled up in personal savings accounts\textsuperscript{48}
3. To gain profit for the government from the already existent "second economy";
4. To stimulate the state monopolies with competition.\textsuperscript{49}

\textit{a. Private Enterprise Law}

The underground "second economy", while providing for the material desires of the Soviet non-elites, has robbed the government of supplies and resources, reduced incentives to force the official system to work efficiently, and eliminated control of revenues on "second-economy" goods and services. The new private

\textsuperscript{47}"Draft Law on State Enterprises", \textit{FBIS (USSR, National Affairs)}, 18 February 1987, pp. S1-S2.
\textsuperscript{48}Hedrick Smith, \textit{The Russians}, (New York: Ballantine Books, 1976), pp. 274-275. Sufficient and/or quality consumer goods are not available so workers have stashed away great amounts of cash.
enterprise law seeks to direct revenues from individual enterprise into government coffers.

The private enterprise legislation, which became law on 1 May 1987, permits individual families to sell goods or services in their spare time. These businessmen set their own prices. The government gets a profit by requiring the purchase of an annual permit (instead of taxes). Before the law, this activity existed but the government had no control and received no direct benefit. The government is encouraging private enterprise by making small bank loans available for rent, tools, and raw materials.

Under the law citizens are permitted to manufacture items like clothing, furniture, and sports equipment or provide services like car repair or apartment painting. The law prohibits the manufacture of weapons, medicine, and copying machines.

b. Cooperatives

Cooperatives may be opened by a group of at least three people. They set their own prices. The government profits by a 10% tax. The laws require that each cooperative establish its own insurance and benefits fund for its members. The cooperatives are usually affiliated with a state business, but buy necessary materials directly from suppliers at retail prices. Examples of cooperatives have included cafes, taxi services, and recycling centers.

c. Group Contracts

Group contracts are attempts to introduce greater incentives into government business. By this method, a branch of a government factory or service is established under contract to its parent enterprise. The state sets prices, and the contractors pay a percentage of their income to the government. The branch’s share is then divided among the workers or invested in upgrading the business. The parent company provides a business location, pensions, fringe benefits, and supplies at wholesale prices.

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d. Openness ("Glasnost")

Why has the policy of "glasnost" been introduced into Soviet domestic affairs? Pragmatically, the USSR’s economy is in need of quick outside help:

- advanced technology to rapidly develop difficult projects to diminish the "technology gap";
- basic industrial technology to reduce labor-intensity and develop robotics;
- electronic high-technology (e.g. computers and data processing) for more efficient planning.

A key fear for the Soviet leadership is the potential for a loss of Party control through a loss of information control. Japan, a world leader in computers and data processing equipment and technology, could provide the USSR with assistance in all these areas. But what are the implications for the loss of control, beyond economics, of the introduction of high-technology in computers and information systems? General Secretary Gorbachev has already begun to prepare for the eventuality of "adverse" information from the West by his policies of "Glasnost" (openness) in the domestic Soviet press; by relaxing government information controls domestically, he is psychologically paving the way for greater international information input to the Soviet populace.

e. Joint Ventures Law

The Joint Ventures Law is an attempt to entice capitalist nations to establish business in the USSR, simultaneously importing new and efficient technologies. However, the secretiveness of the Soviet political culture and emphasis on Soviet advantage detract from the attraction of the proposal to the West.

A brief outline of the framework of the proposed Soviet joint ventures law illustrates the disincentives to capitalists. First, the Soviet partner in any joint venture must have a minimum of 51% of the capital (i.e. controlling interest). Consequently, final decision-making power will go to the proven inefficient, overcautious Soviet partner. Second, the managing director must be Russian. How much voice will the foreign company have in choosing the managing director, or in hiring and firing staff? The question is unanswered.

Third, the Western partner is responsible for quality control. Will the quality controller have any power?--his boss will be a Russian. The possibility is very real that the Russian overall control will turn foreign investment into production of

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54 New York Times, 26 January 1986, p. 22E.
Soviet-style non-competitive junk. Fourth, joint ventures operate outside the state plan. A reasonable fear for potential foreign investors is that Soviet-sourced supplies will not arrive on time to keep plants running efficiently, or will be preempted to support the State FYP. This uncertainty spills over into the fifth plank of the proposed joint venture framework—materials bought inside the USSR may be obtained only through Soviet organizations licensed to conduct foreign trade.

Lastly, Soviet staff get Soviet pay. Although foreign nationals will be able to receive foreign salaries, the expected discrepancies in pay between foreign and domestic employees are likely to cause frictions and low Soviet morale. Furthermore, the guidelines for repatriation of profits have not yet been clarified; judging from Soviet motives for opening up to joint ventures and characteristic protective attitude, the government is not likely to allow large percentages of the profits to leave the USSR.

Where technology transfer is concerned, high-efficiency, basic-technology transfers could prove to be a real bonus to the Soviet partner. However, Japan will not violate its support of CoCom restrictions or further strain its relationship with the United States simply for risky joint ventures.

Japanese companies will view joint ventures as a way to produce goods for the Soviet market, while the Soviets want to use them to expand exports. Soviet preliminary talk about tax incentives and guarantees on repatriation of earnings may not produce final proposals which appeal to the Japanese. Unless the Soviet reforms introduce some form of international market economy, the existent state artificial pricing system is unlikely to lure many serious investors to the USSR.

2. Efficiency

Under glasnost, a more open climate for cultural and political expression is being tested to increase domestic morale and to convince foreigners of Soviet sincerity in its peace initiatives. Ultimately, the objective is still economic revitalization. Domestic glasnost leads to internal Soviet criticism.

Internal criticism reveals sources of discontent. Dissolution of discontent will raise morale and motivate workers toward greater efficiency and productivity. A similar thought process is very likely the evolution of the current Soviet "shake-up".

Corruption is being openly exposed, alcoholism and absenteeism are derided. Gorbachev appears to the West as a leader dedicated to improving the life of the masses and the stability of the world.
While examples of corruption have been dealt with in the past, Gorbachev has raised the stakes by exposing middle-level bureaucrats, and by pointing accusing fingers at departments which very generously support developing various kinds of production while being very mean in allocating funds for developing the social sphere...This is exactly that sort of cunning that costs the state very dear. That is the political assessment.\(^5^6\)

Obviously, Secretary Gorbachev would like to win the hearts and minds of the masses as well as presenting a more attractive, economically strong Soviet Socialism to the world.

As a means of gaining public support (without endangering the position of the high-level bureaucracy), Gorbachev's reforms have initiated "democratization" at the trust and enterprise levels of the economy. The directors are elected by the workers. The Party makes its recommendation for these positions, but the workers choose. Consequently, the Party's control may be weakened by the possible introduction of non-party members into these economic positions. It is no surprise, then, that the Party chooses candidates for positions above the trust level, and for the parallel Party organizations at all levels.

Alcoholism and absenteeism have an obvious negative effect on efficiency. To discourage excessive consumption of alcohol, the government has reduced available quantities of vodka and raised its price. To discourage absenteeism, random identification checks are being conducted of people standing in queues (i.e. shopping) during working hours. Those who should be at work are reported to their superiors.

3. Resistance to Reforms

Such sweeping innovations to a system are bound to encounter inherent resistance to change. Familiarity is psychological security. Gorbachev's program is encountering substantial resistance from various sectors of the USSR.\(^5^7\)

Soviet citizens in general recall the pattern of past attempts at reform. Apprehension about the reforms, which so far consist largely of Party "resolutions" rather than laws, exists because of historical reforms which eventually turned against

\(^{5^6}\)General Secretary Gorbachev ("Vladivostok Speech"), \textit{FBIS (USSR)}, 29 July 1986, pp. R7-R8. "Departments" are the CPSU organizations which correlate to the economic "ministries".

their promoters. The Russian political culture is keen on survival. Rather than taking a firm pro or con position, most citizens prefer to wait and observe.

Attempts to alter some entrenched traditions, however, are bound to cause friction. Gorbachev has met resistance concerning his attack on alcoholism. Vodka is an ingrained aspect of Soviet social functioning. Despite its statistically detrimental affect on productivity and the divorce rate, alcohol consumption is considered a factor of life. Citizens have met state-induced shortages by “home-brewing”.

Much of the innovation in restructuring can be traced to the inefficiency inherent in the “old” centrally-planned socialist economy. Incentives are needed to boost workers’ desire to excel. Thus, the honest appraisal by the CPSU leaders that greater input is required for the Soviet consumer sector.

Prohibition of “queueing” during work hours attacks the methods of making the shortage system work which have evolved. Social inter-relationships and inter-dependencies are disrupted, dismantling some of the framework which has made the system acceptable. If Gorbachev’s objective is achieved, and better-quality higher-quantity consumer goods are produced, this interdiction of the popular means of coping will not be as important as it is today. At the moment, however, this logical measure may produce more discontent than the trade-off it achieves in productivity.

As reflected in the “profitability” law, directors are required to return at least 25% of an enterprise’s profits to individual workers. The threat of unemployment due to unproductivity is also an incentive to do well. (In accordance with the socialist contract, the workers from the closed construction company, mentioned earlier, have been given new jobs.)

Perhaps the greatest impact on the psyche of the masses is generated by the uncertainty associated with the “threat” of lost jobs. The Soviet Union’s social contract has been one of its most appealing and stabilizing domestic forces. A tacit alliance has existed between the Party leadership, who want to maintain their control of power and perquisites, and the workers, who have enjoyed the security of ensured employment, basic social welfare benefits, and subsidized food, utilities, and housing. Although Gorbachev’s intent is to stimulate productivity by cutting away non-contributing enterprises, the effect produced is doubt and insecurity among the masses.

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The Soviet military arm is understandably negative about its reduced priority in politics and over economic resources. The Red Army leaders would rather emphasize the threat from the West than give up their preeminence due to economically-driven detente.

Gorbachev's program also threatens the Party apparatchiks—especially those unproductive bureaucrats whose positions and perquisites are threatened by the movement toward efficiency. Although Gorbachev has been realigning the political power structure by fresh appointments, factions of the "old line" still exist in opposition to his plans.

Whether Gorbachev will be able to survive the opposition to his reforms will be determined by the demonstrated successes of the program. The proof will entail a raised standard of living for the masses and demonstrated growth in the economy for the apparatchiks. To be successful in rapid modernization, Gorbachev will need the cooperation of the West.

D. RESEARCH AND DEVELOPMENT

1. USSR

Contrary to popular opinion, the Soviet Union is not slack in its emphasis on R&D. On the contrary, the Soviet Union and its CMEA partners employ a greater percentage of their work-force in R&D than the primary market economy nations. (See Table 5).

The table shows that the CMEA countries generally allot a greater proportion of their work force to R&D than the market economies. They also employ an overall slightly greater number of scientists and engineers. They average 130% greater investment of their GDP (Gross Domestic Product) in R&D than the market economies. The United States shows very low figures in all three categories; the Soviet

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60 Economist, 20 April 1985, p. "Survey" 3. The Council for Mutual Economic Assistance is also known as Comecon. Active, full members include the USSR, the German Democratic Republic (DDR), Poland, Czechoslovakia, Hungary, Romania, and Bulgaria. A "special" relationship exists with Albania and Yugoslavia, in Eastern Europe. Observer status has been granted to Afghanistan, Angola, China, Ethiopia, Laos, Mozambique, North Korea, South Yemen, and Nicaragua. Cooperation agreements have been signed with Finland, Iraq, and Mexico.


### TABLE 5

**RESEARCH AND DEVELOPMENT**

<table>
<thead>
<tr>
<th>CMEA</th>
<th>R&amp;D as % of GDP in 1979</th>
<th>R&amp;D personnel as % of total employment (excluding agriculture)</th>
<th>Scientists &amp; Engineers as % of total employment (excluding agriculture)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czechoslovakia</td>
<td>2.9(1978)</td>
<td>1.8</td>
<td>5.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.7(1977)</td>
<td>1.5</td>
<td>8.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>2.5(1978)</td>
<td>1.4</td>
<td>9.3</td>
</tr>
<tr>
<td>DDR</td>
<td>---</td>
<td>2.2</td>
<td>6.3</td>
</tr>
<tr>
<td>Poland</td>
<td>1.6(1978)</td>
<td>1.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Romania</td>
<td>---</td>
<td>0.7</td>
<td>---</td>
</tr>
<tr>
<td>USSR</td>
<td>3.4(1977)</td>
<td>---</td>
<td>11.6</td>
</tr>
</tbody>
</table>

* Accurate figures on Soviet R&D personnel are not available as they are often represented under other guises. The percentage expressed under "scientists and engineers" is indicative of the Soviet effort in this area.

**Western Market Economies**

<table>
<thead>
<tr>
<th>Country</th>
<th>R&amp;D as % of GDP in 1978</th>
<th>R&amp;D personnel as % of total employment (excluding agriculture)</th>
<th>Scientists &amp; Engineers as % of total employment (excluding agriculture)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>2.2(1978)</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Canada</td>
<td>0.9</td>
<td>0.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Finland</td>
<td>---</td>
<td>0.8</td>
<td>9.3</td>
</tr>
<tr>
<td>France</td>
<td>1.8</td>
<td>1.3</td>
<td>9.2</td>
</tr>
<tr>
<td>FRG</td>
<td>2.3</td>
<td>1.0</td>
<td>5.3</td>
</tr>
<tr>
<td>Italy</td>
<td>0.8</td>
<td>0.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Japan</td>
<td>2.0</td>
<td>1.4</td>
<td>11.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.9</td>
<td>1.0</td>
<td>---</td>
</tr>
<tr>
<td>United States</td>
<td>2.4</td>
<td>0.8</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Union invests 170% as much of its GDP in R&D as Japan and employs approximately equal percentages of scientists and engineers. So why does the discrepancy in applied technology exist?

The Soviet system is very slow at turning research into technology, and at diffusion of technology throughout the centrally-planned economy. The discoveries which yield advanced technology require the translation of inventions into innovations in production. Fear of the diffusion of advanced communications equipment (the Party has feared loss of "control") throughout the nation has, in the past, been counter-productive to investments in the qualitative expansion of its industrial base. The recurrent themes of survival and risk avoidance has hampered Soviet efforts to

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stimulate growth and has made implementation of proposed reforms very difficult. Presently, the Soviet Union is facing several obstacles to the continuation of its development plans.

First, the centrally-planned economy of the USSR is known for its inability to produce functioning innovations. Soviet researchers produce plenty of good ideas and plans, but there is a breakdown between creation of a plan and its implementation. Second, the system does not promote risk-taking. Soviet managers are unwilling to voluntarily change a method which is currently meeting its quota, or to establish a production line for an unsure project. Third, the system is not friendly to entrepreneurs; there is much to lose and little to gain from risk-taking--the safe way to ensure survival is to stick to the proven method.

For example, a disadvantage to attempts at improving consumer goods by technological innovations has been the military's control over production assets. For example, if a consumer innovation has a military application, a factory may be forced to divert its production to the military usage and subsequently fall short of its quota for consumer products. Therefore, the incentive for mangers is to stick to standard products which have no appeal to the military and which do not threaten their jobs. Gorbachev's new priorities could ease this apprehension somewhat.

Even without military intervention, researchers have complained that scientists did not whole-heartedly attempt to implement their ideas; scientists complained that researchers did not understand the constraints of the system. For example, they have contended that researchers did not consider the consistent shortage of supplies, or the pressure on enterprise managers to direct resources toward fulfillment of normal quotas. Theoretically, innovation is possible; practically, the security of the "old way" is still a hindrance to progress.

Due to the slowness of proposed changes to become reality, the easiest way for the Soviet Union to catch up in its technological lag is initially to acquire advanced technology from the West. Acquisition of the results of foreign research and development would save the USSR a great deal of time, resources, and effort. The three primary ways of acquiring advanced plans and equipment are to overtly

64 Brian Dailey, lecture at Naval Postgraduate School, Monterey, California, 18 February 1987.
65 Gustafson, Selling the Russians the Rope? p. 54.
purchase, covertly buy, or steal them. The least expensive method, overall, is to purchase by traditional means. Usually, with equipment or technology purchases, the Soviets receive training, maintenance, and spare parts benefits. Covertly buying and stealing are seldom accompanied by the benefits mentioned and are costly in terms of political repercussions (e.g. loss of world prestige and increased anti-Soviet sentiment); furthermore, reverse engineering of products and diffusion of stolen technology may initially be much more expensive than an outright overt purchase.

The Soviets are "forced" to resort to illegitimate acquisition because of restrictions on availability of certain products. Therefore, a lessening of Western distrust is beneficial to Soviet economic interests. A less aggressive posture may make the West more inclined to help them grow, by relaxing restrictions on Soviet imports of modern technology and equipment.

2. Japan

The United States' and Japan's governments spent roughly equivalent percentages of their respective GNP's on Research and Development in 1986. The entrepreneurial attitude of independent Japanese businessmen, fueled by success, has launched them to world leadership in several broad technological fields. Japan's resource constraints have caused them to develop efficiency in use of materials, energy, and operations.

In contrast to the USSR, Japan has been able to make practical application of its research and development projects. Japan's capitalist system has rewarded entrepreneurial efficiency, diversification, product improvements, and quality workmanship.

Of particular interest to the Soviets are Japanese successes in techniques of factory management, automation, and quality control. Although Japanese accomplishments in efficient production have had unsettling repercussions to Japan's own work force (i.e. lower labor-force requirements and consequent rising unemployment), implementation of those successes in the USSR could help alleviate the Soviet labor problem and produce world quality manufactures for export.

Japan's progress in electronics could enable the Soviet Union to establish adequate communications (and improve data processing) for timely planning and management of its economy. In fact, even basic computing and data processing

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networks would be sufficient to more efficiently organize the Soviet system. More effective control of resource distribution and management of inter-related producers would allow more efficient central planning of materiel assets in the Soviet Union.

Japanese know-how for personnel management and training could greatly facilitate the integration of advanced electronic equipment into the Soviet system. The Soviet Union’s drive for productivity would greatly benefit from the Japanese perspective on quality control, efficiency, and incentives.

Japanese developments in bio-technology are to a great extent inspired by Japan’s dependence on foreign sources for its food. Its discoveries in the fields of agriculture and genetic engineering have obvious application for the inefficient Soviet agricultural system, as well as for Japan’s own problem of inadequate land for the Japanese population.

In addition to diversifying their businesses and increasing their imports, the Japanese have undertaken genetic engineering projects toward the long-range alleviation of its consumption requirements for fish.\(^6\)\(^8\) The Japanese are experimenting with chromosome manipulation and hormone treatments to create “superfish” which could theoretically create giant salmon or tuna which return to their original fish hatcheries to be harvested. Through biotechnology the Japanese hope to produce the amount of seafood necessary for survival, less dependent on outside sources. Recent U.S. and USSR restrictions on Japanese fishing in their waters has reduced Japan’s distant-water catch from a peak of 3.7 million tons in 1974 to about 2 million tons in 1986. Japanese dependence on fish farms and its own waters may force it to become the leader in fish productivity—another capability which the Soviet Union will want to acquire.

Japan has been able to accomplish, by success in risk-taking with its limited resources, what the resource-rich Soviet Union has failed to produce by its stifling central planning. The USSR would now like to assimilate the results of Japan’s efforts by injecting modern equipment and techniques into its tightly controlled economic framework. To find out whether the old wine skins will hold the new wine, the USSR must first acquire the goods and services it perceives as necessary.

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E. ECONOMIC COOPERATION

The USSR, under the Gorbachev regime, has been encouraging Japan to help in its efforts to revitalize the economy through joint projects. By offering cash, products of the investment, and to some degree new markets, the USSR is enticing the businesses of developed nations to build up the Soviet Union's economic base. Through joint ventures the Soviets would be able to acquire turn-key projects, including know-how and managerial skills, as well as high-tech equipment.

The USSR would like to capitalize on the demonstrated success of Japan as a "guarantee" to industrial investments. If the Soviets would allow them free rein in joint ventures, the Japanese would be less reluctant to risk their time and inputs in the Soviet Union. But the bureaucratic slowness and insistence on control of the Soviet system often make the relative risk of failure outweigh the potential benefits of profit.69

Economic cooperation extends beyond the direct trade between the USSR and Japan. The present alliances and "special relationships" revolving around the world's two superpowers (the United States and the Soviet Union) extend the significance of trade to issues of global interdependence. Within the existent bipolar system of inter-relationships, trade cannot be conducted in a vacuum. Bilateral trade, whether intra- or inter-alliance, affects the balance of global stability.

The USSR has continually stressed the inter-relationship between economic ties and friendly political relations, whereas the Japanese have, in the past, sought to separate the two factors. The Soviets have promoted trade with Japan by inviting Japanese business groups to Moscow and whetting their capitalist appetites with discussions of joint projects,70 by agreeing to set up a Japanese information office (as a cultural center) outside the embassy premises,71 and by encouraging the development of Japanese trade federations friendly to the USSR.72

1. USSR-Japan

The Soviet Union has been planning the development of its Far East and Eastern Siberian regions for at least two decades, and has done important preliminary work by building the Baikal-Amur Mainline (BAM). Due to the BAM project alone,

the USSR has gained internationally valuable experience in controlling permafrost-related construction problems and in identifying machinery and equipment problems caused by the extremely cold environment.3 Once the technical, technological, and labor problems of extraction and transportation are overcome, the USSR could presumably have irresistibly low-priced natural resources and energy available for sale or barter.

a. History

In 1962 the first significant steps were taken toward joint Japanese-Soviet development of Siberian oil.4 The $350 million deal was ultimately rejected by Japan on the pretext that the trade should be based solely on cash; the USSR wanted a 10-year deferred payment plan. The underlying cause of the deal’s failure, however, was U.S. pressure on Japan to refrain from dealing with the “Reds”. This deal marked the beginning of Japan’s dilemma of balancing the need for economic trade benefits against its political appeasement of its ally, the United States. When the U.S.-USSR confrontation appeared to decrease following the Sino-Soviet split, Japanese businessmen (largely from Keidanren and the Japan Chamber of Commerce and Industry) established the Japan-Soviet Joint Economic Cooperation Committee (JSJECC) with the Soviet Chamber of Commerce, in September 1965.

For the next couple of years joint projects seemed not only possible but likely. Proposals included joint construction of an oil pipeline between Tyumen and Nakhodka, development of northern Sakhalin natural gas resources and Udokan copper deposits, port construction in eastern Siberia, and forest exploitation.

Negotiations resulted in a successful agreement to jointly exploit forest resources along the Amur River (in 1968) and an agreement (in 1970) on development of a new port facility at Wrangel to handle the timber-related trade and coal shipments. Conflicting national political priorities spilled over into economic affairs, limiting success. The Soviet Union took a hard-line approach about its ability to develop Siberia alone, if necessary. It projected unwillingness to “allow” Japanese participation unless terms were clearly in the Soviets’ favor. The USSR demanded that Japan

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provide the greatest share of capital investments and offer long-term, low-interest loans to the USSR from Japan’s Export-Import Bank and major commercial banks.

The consequent need for Japanese government backing of loans led to political frictions, causing the ultimate breakdown of the joint projects. The Northern Territories issue assumed great symbolic meaning in Japanese politics despite efforts by Prime Minister Tanaka (in 1973) to separate economic from political considerations. The Japanese balked at Soviet efforts to link the joint economic ventures with the “Asian Collective Security System”—designed to contain China and, in this case, to maneuver Japan away from cooperation with the PRC. The 1974 oil crisis alerted Japanese politicians to the vulnerabilities inherent in dependence on any one politically unreliable source of energy.

The Soviet political enigma and its unpredictability in economic deals made Japan desirous of a stabilizing U.S. influence. In 1974 there appeared to be hope for economic cooperation among the U.S., USSR, and Japan. Then, the Soviets cancelled the Tyumen-Nakhodka oil pipeline idea and replaced it with a plan for transporting the oil via a new railway, the Baikal-Amur Mainline (BAM). The railway’s negative military implications for Japanese security were too ominous, and the Japanese and Americans withdrew from direct participation in BAM’s construction.

Thereafter, political considerations caused U.S. participation to become more important to Japan. The Japanese could not in good conscience chase after economic benefits with the USSR while depending on the U.S.’s “nuclear umbrella” for security. If Japan invested too heavily in joint projects on Soviet terms, Japanese economic stakes in the Soviet Union could endanger its prioritization of security issues. Sino-Japanese and Sino-American rapprochement then could possibly have been held hostage if Japan had acquiesced to participate in the political-economic linkage of Brezhnev’s proposed Asian Collective Security System.

All these uncertainties combined to turn the Japanese away from the joint ventures. Instead, Japan opted for straightforward commercial dealings in simple, bilateral Soviet-Japanese trade. Siberian development slowed considerably as the USSR continued the development alone.

Japan has based its policy for continued interest in Siberian development on the simultaneous involvement of the United States. The reason that Japan desires to share involvement with the United States in Soviet ventures is primarily that the U.S. has the military, political, and economic power to effectively deal with the USSR.
The disparity in size, resources, and influence between Japan and the USSR is the cause of much of the Japanese concern over its security.

The USSR, on the other hand, fears the creation or strengthening of an encirclement of its territory, and especially of an anti-Soviet entente among Japan, China, and the United States. General Secretary Gorbachev, seeking to maintain influence among the potential entente members, has reinstituted overtures for joint development with Japan. Japanese involvement in Far East development would serve a dual role—political and economic. To rapidly energize the untapped potential of the Far East region, the USSR has also attempted to provide incentives for Japanese businessmen to support the plan. Future developments undoubtedly depend on the revitalization of the USSR’s domestic economy as well as its relationship with the Japanese people.

b. Recent Developments

At a meeting of a Japanese private committee for business cooperation with the Soviet Union in April 1986\(^7\) the USSR specifically proposed joint ventures with Japan for processing food and wood in the Far East. The Soviets asked the Japanese to provide techniques for increasing efficiency of resources and energy and to “extend technical cooperation” during the USSR’s 12th FYP. Chemicals, automobiles, machine tools, construction materials, home appliances, and medical care were noted as areas where assistance was desired. Furthermore, an agreement was reached to exchange logs and timber to Japan for “development equipment and materials”.

In October 1986 the Japanese conducted an industrial fair in Moscow\(^6\) sponsored by the Japan-Soviet Business Cooperation Committee and the Japan External Trade Organization. The fair, based on possible areas of Japanese-Soviet technology transfer, included microprocessors, numerically controlled machine tools, robots, new industrial materials, and biotechnology.\(^7\)

The implications of these two events in 1986 are that the USSR and Japan are interested in finding a common ground for establishing a mutually beneficial trade relationship. The Japanese are interested in broadening their market-base without weakening their security. The USSR’s plan behind joint ventures is to help its economy grow. Japanese businesses hold the potential of expertise in management and

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\(^7\)FBIS (USSR), 22 April 1986, pp. C1, C2.


quality control. Credit may be more readily available from other Western banks if the
Japanese are jointly involved in Soviet business ventures. Certainly, the Soviets expect
an inflow of technology inherent to the ventures as well.

2. CMEA-USSR

The "Comprehensive Program for Scientific and Technical Progress of the
CMEA Member Countries Through the Year 2000" states the Soviet economic bloc's
vision for the next fifteen years. Section I describes "Objectives, Tasks, and Principles", Section II delineates the "Front Lines of Scientific and Technical Progress", and
Section III projects "Ways of Implementation".

In Section I the framework is laid out in five priority avenues:

1. the use of electronics in the economy;
2. comprehensive automation;
3. nuclear power;
4. new materials and technologies for production and processing;
5. bioengineering.

These CMEA objectives are obviously congruent with the USSR's own economic
direction. Section I further explains that greater labor productivity and more efficient
use of energy and resources will enable the socialists to achieve their number one
priority--a higher standard of living.

In terms of technology transfer and modernizing trade, the Program explicitly
states that the CMEA countries

resolutely reject the policy of bans and discrimination in the sphere of machinery
and technology which is pursued by imperialist circles in the United States and
certain other capitalist countries. This policy is detrimental to international
economic relations in general and contrary to the nature of scientific and
technical progress, which has assumed a global scale.

The CMEA countries firmly advocate the normalization of international ties in
the sphere of the economy, science, and technology, the elimination of all
artificial obstacles and restrictions, confidence-building measures in international
economic relations, the elimination of all forms and varieties of economic
aggression, including those in the sphere of technology, the restructuring of the
entire system of international economic, scientific, and technical relations on a
just and democratic basis, and the establishment of a new international economic
order, and the elimination of underdevelopment as an acute global problem.79

78 FBIS (USSR), 19 December 1985, pp. BB7-BB18.
79 Ibid., p. BB9.
When the socialist brotherhood rhetoric is sifted out, the statement clearly indicates a communist bloc desire to reap the benefits of Western advances in modernization, unhindered by security-minded restrictions.

Section II declares that (economic) "forces and resources" will be concentrated toward accelerating development in the main sectors which determine intensive growth of the entire economy--the five pillars of the Program. Within the discussion of each of the five priority avenues the noted benefits continually return to raising the workers' standard of living, labor-saving modernization, and increased productivity methods.

Supercomputers are identified for economic management and creation of data bases. The promise is extended of introduction of personal computers into everyday life. Robotics and fifth generation equipment are earmarked for reduction of labor-intensity, ability to adapt to changing work conditions, increased productivity, and consistent quality. New materials and technologies are promoted "to ensure the competitiveness of CMEA countries' products on the world markets." Naturally, bioengineering is important in raising the standard of living, in particular in increased food resources and in health care.

Section III of the Program describes how the CMEA countries intend to implement their vision to the year 2000. First, all the CMEA nations will integrate the fundamentals of the Program into their individual Five-Year Plans for 1986-1990. Second, for the production benefits of economies of scale and in accordance with trade theory of comparative advantage,

the CMEA countries will actively utilize the advantages of mutual cooperation and socialist economic integration through the further development and deepening of specialization and production sharing in the spheres of science, technology, and production, the fuller and more efficient use of individual countries' existing scientific and technical achievements, and the provision of the requisite conditions for the broad development of direct ties between organizations and enterprises on a contractual basis.

Third, CMEA countries will set up joint scientific, technical, and production associations, and other joint enterprises and technical collectives. Like the Soviet domestic plan, the CMEA program is proposing that closer cooperation between research organizations and production enterprises will reduce the delays between ideas and functional innovations.

80 Ibid., p. BB13.
81 Ibid., p. BB16.
Measurement up to the "highest world standards" is continually stressed throughout the Program text. This emphasis is consistent with the objective of creating a socialism which is attractive, rather than repulsive. As further enticement to the less enthusiastic CMEA participants, the Program promises that

the CMEA countries not participating in the work envisaged by the program will be entitled to obtain scientific and technical results on terms agreed with the elaborating countries.\footnote{Ibid., p. BB17.}

Although trade with the West is not mentioned in Section III, the quote from Section I clearly illustrates that the socialist bloc is ready to take whatever it can get to minimize its own expenditures in modernization efforts. The democratic capitalist West is debating over the profit versus security aspects of its response.

3. US-EEC-JA

The United States and Japan are highly interdependent. For the U.S., Japan is a vital source of capital and its major ally in Asia; for Japan, the United States provides military security, its major market, and the focus of its foreign investment.

Economically, the United States is still the most prosperous industrial nation in the world. That economic status has so far made Americans the leaders of the free world. But the situation is changing. The U.S. government has been incapable of instituting effective reforms to balance the budget and to revive American competitiveness in local and world markets. Part of the problem lies in American domestic complacency, and part in unequal international distribution of responsibilities and benefits.

Americans of the "old stock" are reacting with fear to the recent Japanese economic invasion of the United States. Japanese business has improved on America's game. Despite its dependency on foreign natural resources, foodstuffs, and raw materials, Japan has created an economic society based on quality and efficiency, and driven by intelligent entrepreneurship.

The U.S. has gotten bogged down by resting on its laurels and by its current status as a world superpower. American businesses have failed to invest in the future, and have been swallowed up by the rapid progress of technological change. Unions have attempted to compensate for inefficiency by bullying businesses into unsound
contracts. The result of inflated wages is often loss of investment capital (for the businesses) for staying competitive, increasing relative inefficiency productivity, and ultimately a defunct business and unemployment.

Beyond its domestic problems, America is now getting a taste of the colonial paranoia which it has exported in the past. Japanese investors, lacking investment opportunities in Japan, have begun to utilize the strong yen to "colonialize" the United States. To avoid trade restrictions, Japanese bankers and businessmen are designing, funding, building, and managing businesses and outlets in America. They are buying up important real estate in key American industrial, financial, and political centers. Historically-minded U.S. citizens, especially those alive during World War II, are nervous at the prospects of Japanese power gaining control in America.

Consequently, U.S. resentment is growing toward Japan. Japan has also been encountering increasing animosity from its European capitalist "peers". Article 2 of the NATO alliance treaty contains the pledge that the allies would "seek to eliminate conflict in their international economic policies". By logical extension to all the "capitalist bloc" principle players, it is clear that resolution of conflicts among the United States, Japan, and EEC members is vital to the economic, political, and military security of the West.

Since Japan's economic strength is currently creating a potential wedge within the Western alliance, one would expect a non-emotional approach to compromise and resolution of the problem. Instead, the British Prime Minister, Margaret Thatcher, has threatened to expel Japanese bankers from Great Britain. The attitude appears to be indicative of a "common front" against Japan by the other members of the Big Seven. The European Economic Community (EEC) has warned Japan to open its markets to more imports or to face export-limiting actions via the General Agreement on Tariffs and Trade (GATT).

Both the United States and the European Economic Community are disturbed by Japan's failure to trade equitably with them. Japan has not allowed imports the same freedom into its domestic markets that its exports have enjoyed into American

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and European markets. The EEC and U.S. are advocating the following changes in Japanese economic policies:

- Restructuring of Japan's economy to make it more attractive to foreign and domestic investment;
- Reciprocally liberalizing Japan's financial and capital markets to American and European investors;
- Removing trade barriers to allow export-import flow based on comparative advantage;
- Removing unfair trade practices (e.g. government subsidized "dumping");
- Cooperating to strengthen world trading and monetary systems.\(^8^6\)

The point is that Japan's allies think that Japan has grown up now and must adjust to a less protectionist position. Japan's advantageous marketing posture can no longer be supported by its competition.

There are indicators that Japan has taken the advice of its Allies to heart. The Keidanren, Japan's most important business association, supports free trade as being in Japan's ultimate interest. Furthermore, the Nakasone Government is preparing a package for the Japanese Diet which proposes to speed up growth in the domestic economy, to increase purchases from the United States, and to increase Japanese aid to Third World countries.\(^8^7\) For example, the Japanese are considering a $30 billion foreign aid package, not linked to Japanese exports, to Latin America.

However, the conflict between the Western capitalist powers could potentially be exploited by the USSR. American and European haughty attitudes and unwillingness to admit and correct their own economic shortcomings could drive Japan toward a more independent global position. Although Japan is not likely to make an abrupt political about-face, it is possible that its trade with a willing USSR could make a marked increase. The new economic policies which its capitalist partners are suggesting will increase its susceptibility to the prospect of new markets within the Soviet bloc.

The EEC effectively accepts U.S. "protection" and promotes its own detente with the USSR.\(^8^8\) Japan could similarly find its own situation pliable enough to enter into a Japanese version of a "separate peace", or at least greater political independence from the United States.


4. Soviet Clients-Japan

Even without Soviet encouragement, the Japanese have shown that they are not prohibited from dealing with Communist clients when the conditions are favorable for profit. Japan has permitted its businessmen to develop relations with other members of the Communist bloc as well as the Soviet Union and Eastern Europe.

Vietnam and Japan have been developing economic ties. Japan is Vietnam's second largest trading partner (after the USSR). Japan exports vehicles, ships and telecommunications equipment to Vietnam, and imports a lot of shrimp. One Japanese firm has started a shrimp-farming joint venture in Vietnam and has opened a liaison office in Hanoi.89

While the USSR is cutting back on its subsidies to Cuba (e.g. previous exports of under-priced oil and imports of over-priced sugar) Japan had extended $500 million in credit to Cuba by the end of 1984. In 1983 Japan's exports to Cuba (agricultural chemicals, simple machinery, electric motors, small computers) came to $104.7 million; by 1986 they had jumped to an annual rate of $420 million. In contrast, Japan's imports from Cuba (sugar and shrimp) only rose from $78 million in 1984 to $120 million in 1986.90

The implication is that, in the absence of other qualifiers (e.g. specific political/military animosity), Japan is prepared to expand its export markets regardless of ideological/political differences. If the USSR were to remove its specific barriers with Japan (e.g. the Northern Territories issue or the visible military threat), Japanese business drive could encourage bilateral trade opportunities.

F. SOVIET MONETARY RESOURCES

1. Barter or Cash

In 1986, 38% of Soviet trade was with the non-Communist bloc.91 This figure does not include trade which is funneled from the West to the USSR through the Communist bloc, especially through East Germany (DDR). Japan limited its share of imports from the USSR to 1% in 1984, primarily due to political instability of the USSR-U.S. relationship. Japan, as the United States' most consistent supporter, is

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vulnerable to sanctions by either superpower. The USSR only imported 1.5% of Japan's exports. Key reasons, pertinent to this discussion, are an aversion to building a hard-currency budget deficit, and CoCom restrictions on some items desired for import.\(^{92}\)

The specific implications for Japanese-Soviet trade become even more complex when considering questions of payment; control of trade with the USSR is greatly dependent on whether Japan accepts barter and buy-back arrangements, for example, or whether payment is in hard-currency. The Soviet economy does not create much hard-currency and the Soviet government does not like to create a hard-currency debt. Consequently, the Soviets favor barter related trade. But, the USSR generally needs hard-currency and credits to trade with the West.

2. Western Credit

Related to the question of deciding what technologies should be exported to the USSR, evaluating the Western position on helping the Soviets to afford the purchases becomes important. A popular theory suggests that assisting Soviet purchases of Western products benefits Western economies. Contrary to that theory, a Rand Corporation study\(^{93}\) concludes that the reduced welfare of domestic consumers and taxpayers outweighs the benefit to producers.

Focusing specifically on the direct benefits for the USSR is more appropriate from the standpoint of conflicting social systems. Western loan subsidies reduce the pressure on the Soviet Union to comply with Western policies, and can be interpreted as aiding the enemy, in a very understandable sense. A $3 billion subsidy in effect saves the USSR the cost of an aircraft carrier\(^{94}\) or pays for the USSR's annual support of Vietnam's Cambodian invasion\(^{95}\) --the yearly amount of subsidy in 1986. Furthermore, the subsidies allow the Soviet empire to continue its support of client states.\(^{96}\)

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\(^{92}\)Ibid., p. 97.


\(^{94}\)Ibid., p. 40.

\(^{95}\)Christian Science Monitor, 18 February 1986, p. 40.

Although the West should avoid forcing the Soviet Union into a corner, effective use of credits without subsidies makes better political sense than present policies. Japanese and West European banks hold the bulk of Western commercial bank exposure to the USSR. The key to controlling the credit flow to the USSR is international cooperation; subsidies arise from competition to get the USSR’s business. The capitalist problem of multiple competitive sources for business acquisition seems to preclude an end to this support of the enemy. The Japanese need new investment opportunities now. Lacking Western consensus on non-subsidization of credits, they can rationally be expected to compete for the loan accounts of the Soviet Union. The USSR has historically been reliable in its debt repayments.

3. **Exports = Hard-Currency**

In order to buy whatever modernizing technologies and equipment become available, the USSR needs to have hard-currency to facilitate its deals with the West and Japan. Although barter and buy-back arrangements are sometimes feasible, they are more time-consuming and less attractive to capitalist businessmen than cash deals. The sale of exports provides the USSR with convertible currency for increased buying power in the West.

The USSR’s primary source of hard-currency is the sale of energy resources to the West. 80% of the USSR’s hard-currency earnings are dependent on energy revenues. When oil dropped below $15 per barrel, forecasters predicted hard-currency earnings would drop by one-third. Its revenues from energy exports give the USSR acceptable cash assets to spend on the Western equipment that it needs to compensate for the inefficiency of unreformed Soviet industrial management.

The value of gold is staying low. Therefore, the USSR’s other main source of convertible currency, gold, for handling its trade deficit is temporarily, at least, of little value for the purchase of imports from the West. The USSR, remember, does not like to have a deficit.

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99 *Economist*, 20 December 1986, p. 91. In recent years 80% of Soviet hard-currency earnings have derived from gas and oil sales alone.
The effect of less hard-currency on the Soviet Union is that it has less money to spend on imports of machinery for the modernization of factories. Hard-currency is also used to buy Western grain which it needs to offset the inefficiency of Soviet agriculture.

Since hard-currency from energy exports is getting tougher to maintain at sufficient levels, it is clear that the Soviets need Gorbachev’s economic reforms to make their agriculture and industry effective. In the long run, practical reforms are needed to break the cycle of centrally-planned stagnation; short-term crisis management of resources is no longer deemed acceptable by the CPSU leadership. The current Soviet hard-currency sources reflect short-run attempts to fix the symptom rather than the problem.

Recent pronouncements and reforms indicate that the Soviet bosses have recognized the vulnerabilities inherent in limited sources of generating hard-currency. The USSR needs to diversify from its dependence on energy resources as its primary source of hard-currency. To decrease reliance on these current cash staples, the USSR will have to make trade-expanding concessions toward the capitalist economic system. A shift in exports from reliance on natural resources/raw materials toward competitive (both in quality and price) machinery and manufactures would limit sensitivity to external controls. Soviet dependence on energy sources for hard-currency makes its economy extremely vulnerable to foreign controls on world pricing and demand for its energy resources. Nikolai Ryzhkov, the Soviet Prime Minister, has called to Soviet enterprises to "unite their interests with the demands of the foreign market". This statement to the Comecon members, in a December 1985 meeting, indicates the Soviets' new direction in terms of both improved technology and a shift in its types of exports.

The first step in moving toward exportable, profitable manufactured goods would likely be to produce cheap, basic-technology goods which still have high demand. However, large-scale alternative world-quality exports are not yet a reality for the USSR.

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The Soviet Union invests one-third of its industrial inputs in energy projects. Up until the Chernobyl disaster, the Soviet planners intended to double the country's nuclear power capacity to 60,000 megawatts by 1990; coupled with higher coal and gas production and more hydro-power stations, that energy potential would free up about 40% of the 130 million tons of oil burned in Soviet power stations each year. But post-Chernobyl events and the stagnation of oil production (as well as the high cost of extracting oil from new fields in Siberia) has put a damper on projections for Soviet oil exports.

4. Energy Resources

   a. Oil

   In the nine months from January to September 1986 the USSR increased its volume of oil sales abroad by 13% and boosted sales of natural gas to record levels.\(^{102}\) But in terms of its cash flow, the increased sales cannot compensate for fallen oil prices. The Soviet Union has had to increase its borrowing and its gold sales to keep the deficit at an acceptable level and to satisfy its hard-currency needs and debts.

   The USSR plans for a massive investment (31% increase) to raise its oil output to between 625-640 million tons by 1990. (Its 1981-1985 Five-Year Plan minimum goal was 620 million tons, but actually fell from 616 million tons in 1983 to 595 million tons in 1986.)\(^{103}\) Although this investment is substantial, it is deemed necessary for long-range economic revitalization. The current investment in oil equals one-fifth of total Soviet industrial investment. The return is that two-thirds of its revenues from the industrial West are generated from oil sales!

   Since March 1983 oil exports have also declined as a result of increased domestic needs. Oil was required to replace the loss of nuclear energy in the aftermath of Chernobyl as well as to compensate for shortages of hydroelectric output caused by the drought. The fallen price per barrel necessitates that the volume sold abroad must increase; the Soviets must address the obvious problem created by the volume of domestic consumption. To make matters worse, oil is sold on the basis of weak United States dollars, whereas stronger Japanese yen or European currencies are needed to purchase much of the available industrial equipment which it wants.

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\(^{102}\) *Economist*, 6 December 1986, p. 85.

Unless there is a significant domestic redistribution of resources from either industrial investment or the defense sector, funds for planned investments in consumer goods will continue to be provided by currency from oil revenues. But a gap in fulfillment of the domestic nuclear power plan has occurred which will have to be filled by oil. Thus, the USSR will experience a decrease of exports as it utilizes oil assets to meet its domestic needs. This decrease of its key export will necessarily decrease its supply of hard-currency revenues by the loss of external sales, and further the case for reducing the defense share of the planned budget.

b. Nuclear

The Chernobyl disaster of early 1986 has had a significant impact on the USSR. Its immediate effects were loss of life, danger to health, and the loss of at least one of the four Chernobyl reactors. The long-run effects will be the most telling. Radiation has caused a reduction in the available arable land and dairy pasture in the USSR’s agricultural heartland. Not only have the other three reactors at Chernobyl been shut down, temporarily, plans for two additional reactors there have been suspended. The evacuation of the area also shut down other production in the affected zone.

The immediate effect of the disaster on electrical power supplies was minimal. Chernobyl only produced 0.3% (three-tenths of one percent) of the total Soviet primary energy. However, the Five-Year Plan for 1986-1990 aims to produce 21% of its power from nuclear sources (the plan was pre-Chernobyl) and seems to be endangered in that respect. Currently, nuclear power produces only 10% of Soviet total electrical power, 4% short of the 1981-1985 Plan. Failure of the nuclear production manufacturing plant at Atommash caused the nuclear engineering program to slip. The Chernobyl accident, added to the fact that the last Five-year Plan missed its goal, puts the pressure on the Soviets’ future energy targets.

Consequently, Gorbachev has stressed that the USSR must become more efficient in its use of energy. The current Five-Year Plan calls for reduction of energy intensity (and implied reduction of energy dependence) by 7% to 9%.\(^\text{104}\) That is, the Plan demands that less energy be consumed per unit of output. If this feat can be accomplished it will help to ease the burden of both the loss of planned nuclear power and the demands on available energy for the domestic sector.

c. Natural Gas

In April 1986 the USSR and Japan agreed merely to continue consultations on the development of natural gas on the continental shelf off Sakhalin Island. The project needs to be re-examined due to the sharp fall in crude oil prices worldwide. The project could have been begun before the drop in prices occurred, but plans were delayed by both a Soviet feasibility study and a slackening liquefied natural gas (LNG) market. In 1978 the project appeared promising to Japan. However, after experiencing the unpredictability and unreliability of the Soviet Union in the joint Tyumen oil project and its political unpredictability (e.g. Afghanistan), Japan made other arrangements for its LNG needs until the late 1990's. The stalled project would have included 20-year imports by Japan of three million tons of LNG annually from the USSR.

In August 1986 Japan announced that the USSR would pay cash for 200,000 tons of large diameter pipe, primarily for use in the Siberian natural gas project. The order is for a total of 400,000 tons of pipe, but the Soviets will pay for the first half of the order in yen (because of the yen’s appreciation against the dollar). The second half will be paid for in dollar-denominated payments. The creation of this deal is an indicator of the affect that fallen oil prices (based on dollars) have had on Soviet hard-currency resources.

108 Ibid., pp. 138-141.
III. TECHNOLOGY TRANSFER

The building blocks of Secretary Gorbachev's plans to modernize the Soviet economy require that proven inputs be utilized to make the new foundation stable and durable. Some of the technology can be procured through socialist sources, but the most advanced equipment, training programs, and managerial techniques have been developed in the West (by Japan in particular). The fundamental aspects of critical technology-related issues and their relevance to East-West trade restriction policies will be examined in this chapter.

A. TRADE RESTRICTIONS


The Coordinating Committee for Multilateral Export Controls (CoCom) is an informal, multilateral organization intended to halt the flow of Western militarily significant technologies to the Communist bloc. CoCom relies on the continued willing participation of members since it has no strict legal basis in treaty law. This "gentleman's agreement" operates by prohibiting the export of goods which have been unanimously accepted as part of the CoCom restriction list.¹¹¹

Beyond the agreed CoCom list, each nation has its own restricted export list. The United States, until recently, has maintained tight control over its own relevant products and technologies. One of the most effective arguments for continuing severe restrictions against Soviet acquisition of U.S. and Japanese high technology goods and services has been the accusation of "supporting the enemy".

The most recent Report to the Congress by the Secretary of Defense stated that the Soviets' assimilation of Western technology has been so broad that the United States and other Western nations have been, in effect, subsidizing the Soviet military buildup.¹¹²

¹¹¹John R. McIntyre and Richard T. Cupitt, "Multilateral Strategic Trade Controls Within the Western Alliance," Survey 25, Number 2, Spring 1980, pp. 81-108.

The report declared that CoCom is the only organization through which all the NATO nations (except Iceland) and Japan speak in agreement on the exportability of specified goods and technology to the Warsaw Pact.

The effectiveness of U.S. technology security program is inseparable from multilateral efforts with the same objective. CoCom’s efforts are being taken with increased seriousness by all member countries. It has established a new mechanism through which the organization can benefit from timely information and analyses of technologies whose export may pose significant strategic risks for the Western Alliance.113

Defense Secretary Weinberger warned against supporting the enemy, and reminded the Congress that the United States is the trend setter in CoCom—the U.S. must remain firm in its control policies. Despite the efforts of the Department of Defense, the Department of Commerce succeeded in easing restrictions on exports.114 A report by the National Academy of Sciences (NAS) appeared in January 1987 which articulated the United States’ economic losses precipitated by “over-control” of exports.115 On 9 February 1987, the U.S. Secretary of Commerce announced plans for streamlining the export control system.116 The immediate effects were exemption from license requirements for enterprises controlled by allied governments (for the purchase of U.S. strategic goods). The follow-on proposals included exemption of “reliable” private companies from licensing requirements, and the elimination of export controls on products which have readily available foreign equivalents.117

The United States has maintained its unilateral restrictions primarily to prevent non-aligned and neutral nations (e.g. India, Brazil, Singapore, Sweden, Switzerland, and Austria) from acting as middle-men in the transfer of U.S. technology to the Communist bloc. Unilateral restrictions have given the United States economic leverage to encourage the cooperation of non-CoCom countries with its policy of restricting Communist access to American technological advantages.118

Generally, the

113 Ibid., p. 303.
118 Eduardo Lachica, “U.S. Plans to Urge Non-Aligned Nations to Keep Advanced Gear from Soviet Bloc,” and “Secrets Police: Neutral Nations Deny
United States’ intended effect has succeeded. The USSR regularly denounces the capitalist technological selfishness as a hindrance to global forward progress.119 This denunciation is an indicator that CoCom and U.S. restrictions have at least made Soviet acquisition of high-technology goods a difficult task. Due to the diverse perspectives of national interest among participating countries, CoCom has limited its joint restriction list to technologies and equipment with military application. However, as alluded to earlier, there is disagreement among the CoCom nations as to the definition of critical technologies in terms of national and mutual securities. These pluralistic countries must convince powerful business lobbies that they are jeopardizing the security of the CoCom members. The United States, as a CoCom member, has spearheaded the effort to severely restrict the transfer of technology to the USSR. Japan generally has been more agreeable to U.S. restrictions than the NATO countries which are involved in the Committee.

The U.S. relaxation of its unilateral export controls may have several pertinent affects on Western technology transfer to the USSR:

1. The loosened U.S. restrictions increase the temptation for businessmen to sell restricted goods to the USSR. Delegation of responsibility for upholding agreements to individual nations and enterprises decreases the risk of detection for potential violators.

2. Japan and the other CoCom nations are likely to relax their own unilateral restrictions in accordance with the precedent set by the United States. The U.S. decision implies a move toward an increasing prioritization of business relative to security.

3. Inference that the U.S. is “downgrading” its export controls may act as a catalyst to “downgrade” the CoCom list. Although the munitions and atomic energy lists are not likely to be affected, the list of “dual-use” industrial/commercial products is likely to be whittled down.

The informal nature of CoCom and the unanimity requirement of the CoCom list makes the organization inherently unstable. However, the fact that it functions well enough to frustrate the USSR is a tribute to its effectiveness, so far.

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2. Arguments.

The arguments against the transfer of high-tech goods and technology to the USSR are very rational, but are also readily countered by those in the West who are more concerned with profit than with national security. Ironically, the businessmen who best epitomize the Soviet concept of insatiable capitalism are those most inclined to enable the USSR to develop socialism as a viable system. That is, those most ideologically despised by the Soviets are the USSR’s greatest allies (in the market economy countries), for helping to temporarily bypass the weaknesses of the centrally-planned economy.

In that light, an important argument for fewer restrictions is based on the global competition for sales of equipment and know-how; the U.S. and Japan do not always have a strict monopoly on technologies. From the Japanese perspective, if Japan supports severe U.S. restriction policies, the Soviets may acquire the goods from some other source, and Japan will have only succeeded in losing business. The USSR has demonstrated the ability to covertly acquire many items and plans which officially have limited access. Additionally, independent research and development efforts are making simultaneous breakthroughs in similar areas of interest throughout the world. Once an innovation is in production, the product cycle is often so short that if Japan refuses to sell an item, the USSR may be able to buy an equivalent item from another country (e.g. France or West Germany) in a short time.

From the business perspective, the Japanese could certainly use the Soviet markets for exports. The key question is whether the trade would appreciably diminish the mutual and national security of Japan and the other CoCom members. Although the fundamental disagreements, in the context of the CoCom mechanism, occur concerning the transfer of "militarily significant" technologies, the issue is actually political, not military. Definition of what constitutes "militarily significant" is a compromise (amongst CoCom members) based on divergent political perspectives of national security, military application of technology, multiplicity of end-use, and technology obsolescence.

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120 *New York Times*, 8 January 1987, p. 9; e.g. Breakthroughs in superconductors.

121 Bucy, "Technology Transfer and East-West Trade," pp. 132-151. The following arguments concerning the pros and cons of technology transfer to the USSR are presented in greater depth in Bucy’s article.
The proponents of maximum trade with the Soviet Union and its bloc argue that only items which have specifically applied military significance should be restricted, i.e. *critical technologies* which ensure Western strategic superiority via the "technology gap". Maximum-trade advocates believe that technological progress is so rapid now that even highly technical products and processes are practically obsolete when they are fielded, i.e. the question of *technology as end-products versus know-how*. According to this argument, the process design and manufacturing know-how are more critical than the end-product and should be the object of control. This rationale contends that product sales do little damage to national security while providing increased business opportunities. A closely related point concerns *active versus passive transfer mechanisms*. Active mechanisms of transfer (such as turnkey factories, joint ventures, or contracts which include teaching efforts) are more beneficial to the recipient than passive transfers (such as end-products or machinery) and tend to rapidly close the technology gap. Again, proponents of increased trade argue that simple product sales provide more economic gains than security losses.

A final general argument to diminish the criticality (and increase profits) of sales to the USSR distinguishes between *evolutionary versus revolutionary technologies*. This concept proposes that only products which embody state-of-the-art, revolutionary advances have the potential to threaten the West’s continued technological lead. The contention is that transfer of evolutionary technologies provide very little acceleration of modernization because of the speed at which revolutionary discoveries are occurring. Proponents of this view do not perceive that the transfer of even advance “old” technologies will offer significant benefits to the USSR.

These arguments give little credit to Soviet capabilities for capitalizing on their successes in acquiring modern equipment and processes. Pro-trade rationalizers ignore or have forgotten Soviet advances and successes which surprised and puzzled the West in the past:

- In 1953, the USSR set off its first hydrogen bomb. Fallout samples from the explosion indicated progress ahead of the United States, in that the Soviet bomb did not require refrigeration. The implication was that the USSR could conceivably build an H-bomb-carrying Intercontinental Ballistic Missile (ICBM) before the United States.\footnote{Fred Kaplan, *Wizards of Armageddon*, (New York: Simon & Schuster, Inc., 1983), pp. 112-113.}
In 1957 the USSR launched Sputnik, beating the U.S. in putting an object into outer space. The implication was that the USSR could already have a functional ICBM—years ahead of U.S. ICBM deployment.\textsuperscript{123}

The U.S. was "forced" to begin a crash program to ensure that it kept pace with the USSR in space and nuclear weapons programs.

- In the mid-1970's, the rapid growth of the Soviet chemical industry, made possible by technology transfers from the West, caused a Western chemical trade deficit with the East—which resulted in Western factory closings and unemployment.\textsuperscript{124}

- In 1984 the USSR was exporting computer chips, 64K dynamic RAMs,\textit{ to the United States} and had produced a 256K dynamic RAM prototype "to match anything in the West".\textsuperscript{125}

The point is that the West cannot afford to underestimate Soviet capabilities to rapidly advance in areas where the USSR concentrates its efforts. Playing "catch-up", as in the space-race in the late 50's, is psychologically disadvantageous to the West. Furthermore, reactive policies tend to be less efficient and less productive than planned, proactive designs.

At the other end of the spectrum from those who support maximum business, those for maximum restriction of trade argue that anything useful which we sell to the USSR—any idea, technology, product or service which saves them research, time, or money—is detrimental to the national interest. This argument has had its most controversial impact on the restrictions of commercial and "dual-use" technologies. "Dual-use" technologies/products normally include those which may be readily applied to military uses as well as to their designated commercial purpose.

"Dual-usage" has become an issue because commercial developments have surpassed military advances in many fields of investigation, especially in the U.S. and Japan. The protectionist’s contention is that regardless of the commercial use intended by private enterprises (e.g. electronics and aero-space technologies), many of these advancements have military applications which could reduce the West's technological superiority over the USSR. Without this technological edge, the West's purported advantage over the USSR's quantitative military superiority would be lost, endangering the West's mutual security against Soviet expansionism.

\textsuperscript{123}Ibid., pp. 134-136.
\textsuperscript{124}Bucy, "Technology Transfer and East-West Trade," p. 142.
\textsuperscript{125}Paul Walton and Paul Tate, "Soviets Aim for 5th Generation," \textit{Datamation}, 1 July 1984, p. 61.
Mention of a well-known example of the enormous affect that “harmless” technology transfer can produce will illustrate the point. The sale of precision-grinding machine tools from a Vermont firm to the USSR in the early 1970’s would not appear threatening to national security. However, the tools enabled the Soviets to increase the accuracy of their nuclear missile force by precision-grinding of ball-bearings used in the control systems. The implications are fairly obvious. In terms of the numbers of missiles required for the Soviet Union to achieve an acceptable probability of kill against U.S. (or NATO and Japanese) targets, the inventory size was significantly reduced. A requirement for fewer missiles means that the USSR does not need to spend as much on maintenance or production to sustain its desired level of potential.

A smaller inventory requirement also gives the USSR the ability to “safely” negotiate to a smaller number of weapons. The Kremlin’s April 1987 arms reduction proposals suggest that this reduced quantitative need for maintaining a Soviet advantage in “correlation of forces” has created greater Soviet flexibility toward the nuclear balance issue. This negotiating capability is important to the current peace offensive of the Gorbachev regime. Perhaps most importantly, in the context of the Soviet economy, fewer rubles are required for maintenance of the USSR’s nuclear posture, making possible greater investment in either the conventional military or consumer sectors. All these developments may have been possible, at least in part, by the transfer of grinding machines. The trade restrictionist’s viewpoint is well supported by the enormity of the consequences of this one “dual-use” technology transfer.

B. ILLEGAL TECHNOLOGY TRANSFER

All these aspects of the technology transfer question cause political tensions, rivalry, and maneuvering between East and West, and among Western nations as well. Illegal transfers of technology through third nations or front organizations further complicate efforts to halt Soviet acquisition of specific technologies by trade restrictions.

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The Japanese are aware of the Soviet Union's aims in technology acquisition. They are cognizant that "the primary aim of Soviet intelligence activities in Japan now centers on obtaining high technologies developed by private Japanese corporations". For example, in November 1985, a Tokyo trading company and two of its employees were charged with violation of a CoCom ban of computers to the Soviet Union. Allegedly, the employees of Kokusai Boeki Kaisha took six computers to the USSR as handbaggage on five occasions between March and July 1985. The company did not obtain a license from the Ministry of International Trade and Industry (MITI) to export the computers, worth about 35 million yen.

The fact that underhanded acquisition of new technology and equipment is an active Soviet government project indicates the importance of modernization to the Soviet leadership. The Soviets have generated a "shopping list" of desired technologies, from which its agents focus their acquisition efforts worldwide. As former U.S. Secretary of Defense Harold Brown suggested in 1982, since leakage of military applications "is inevitable, the goal should be to keep the Soviets four or five years behind in key technologies". The "Year of the Spy", 1985, served as a somber reminder that individual human appetites will provide the avenue for the USSR to acquire technologies which it desires.

C. MILITARY

Within the military realm, the Soviet Union could utilize labor-saving high technology and equipment to diminish the threat to continued Russian control caused by its diminishing Slavic majority. CoCom restrictions and Western policies which inhibit the transfer of military-relevant technologies make the high-tech solution to the military's demographic problem a burdensome proposition. The prospect of Soviet bloc internal production of desired technologies, unavailable from foreign sources, would require large investments of limited resources into building or upgrading

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132Melvern, Techno-Bandits, pp. 17-20: the "shopping list"; pp. 68-70: the KGB's "Directorate T".
industries. Even "successful" acquisition of end-products and machinery are problematic if they do not include technological know-how. Reverse engineering of products, and trial-and-error organization of production lines are both time-consuming and expensive. Existent export controls are designed to prevent easy duplication of Western militarily-significant processes by restricting their accessibility to the USSR.

One of the most serious breaches of export controls, highlighting the national security implications inherent in technology transfer to the Soviet Union, came to light in early 1987.\(^{135}\) The Toshiba Machinery Company, of Japan, sold the Soviets four milling machines that make reduced-noise submarine propeller blades. A state-owned Norwegian company, Kongsberg Vapenfabrik, sold the USSR the numerical control systems for the machines.

Soviet technicians tested the room-sized machine at the Toshiba plant in Japan. Later, the equipment was installed at a Soviet shipyard by employees of both Toshiba and Kongsberg. To enable finalization of the $17 million sale, Toshiba made changes in the machine to circumvent CoCom export controls.

The military impact is that Soviet submarines are now more readily able to avoid detection—a national security development which cannot easily be given a price tag. The deliberate circumvention of CoCom controls is a more condemnable offense in light of the relatively small monetary gain of the sale. Toshiba’s American subsidiary, Toshiba America Incorporated, alone sells about $1 billion per year. Kongsberg is currently contracting for adaptation of the Penguin anti-ship missile to the United States Navy’s Seahawk helicopter.

Both Japan and Norway have taken internal actions against the companies,\(^ {136}\) but the damage is already done. The reduced-noise propellers have already been installed on some Soviet submarines, and the United States will now be required to address a new, multi-billion dollar antisubmarine warfare effort.

It would be ludicrous to expect that the Japanese government could prevent further transgressions of this type. Japanese businessmen are aggressive. Despite the continued potential for private citizens to circumvent the law, Japan has demonstrated its intent to uphold its agreements with the West. The director and a deputy director


of Toshiba were arrested in Tokyo on 27 May 1987 on charges of "illegally exporting high-technology equipment to the Soviet Union",\textsuperscript{137} in violation of Japan's commitment to CoCom.

The Western trend toward decreased restrictions on the transfer of non-military technologies\textsuperscript{138} enables the USSR to introduce labor-saving systems into its other domestic sectors. Easing of the demand for labor in those sectors will allow the Russians to bolster the military's allowance of the proportionally declining Russian population. If the economy is revived, investment resources will become sufficiently available to pump into projects for decreasing the labor-intensity of the Soviet military, as well.

\textbf{D. NON-MILITARY}

Ironically, on the page of the \textit{New York Times} following the first report of the propeller-milling sale, an article appeared concerning the Soviet "concession" to buy subsidized American wheat.\textsuperscript{139} The U.S. had been highly perturbed when the USSR had failed, in 1986, to fulfill the purchases of wheat to which it was committed under a five-year agreement signed in 1983.

There is no direct military application of this sale, but, obviously, \textit{subsidizing} Soviet food supplies benefits the USSR in important ways:

\begin{itemize}
  \item Greater supplies of foodstuffs implies a higher standard of living and better health for both civilian and military populations;
  \item A higher standard of living increases Soviet domestic satisfaction with the socialist system and makes it more attractive to other nations;
  \item Alleviating Soviet agricultural pressures releases resources to applications in the military, industrial, or consumer sectors.
\end{itemize}

Regarding the announced Soviet purchase of four million metric tons of American wheat (the largest sale ever of subsidized American wheat to a single country), Daniel Amstutz, the Under Secretary of Agriculture, stated,

\begin{quotation}
In a sense the agreement is a breakthrough in this long trade relationship between the Soviet Union and the United States. It gives evidence that the relationship is a better one that will lead to more business.\textsuperscript{140}
\end{quotation}


\textsuperscript{138}“Snips at the Tape,” \textit{Economist}, 17 January 1987, pp. 33-34.

\textsuperscript{139}Gary Klott, \textit{New York Times}, 1 May 1987, p. 27.

\textsuperscript{140}Daniel Amstutz as cited in Gary Klott, \textit{New York Times}, 1 May 1987, p. 27.
Evidently, the political assessment is that the benefits of subsidizing grain sales for U.S. farmers outweigh the risks of aiding the USSR’s economic recovery.

Citing these points is not intended to declare that the agricultural subsidization policy is incorrect for the United States. However, parallel arguments by U.S. Allies, from their perspective, are equally as significant. The national and regional interests of Western Europe were served by the Siberian Pipeline deal of the early 1980’s. From the same perspective, the United States would not have been equitable in condemning Japanese participation in construction of the Baikal-Amur Mainline (BAM). At that time, Japan’s own sense of fairness and security imposed well-considered self-constraint, despite the potential economic benefits.

E. IMPACT ON USSR

In light of the stagnating condition of the Soviet economy, the proposition that “anything which helps the USSR in any area aids their military power” deserves consideration. The Soviet economy, as stated earlier, has consistently failed to meet its FYP goals. To fix the economy, the Party leadership plans to apply more of the factors of production to non-military enterprises, consequently diverting resources away from the military buildup. Defense spending has accounted for approximately 14% of the Soviet GNP (conservative estimates) since 1967.

The Soviet economy will not collapse. The central planners will allocate resources wherever necessary to ensure that the country continues to exist. The reform plan is to realize the “benefits of socialism” at the workers’ level. Unless the civilian economy is upgraded, through modernization of industry as well as by increased efficiency of present production inputs, the socialist proletariat will merely continue to suffer for the motherland while the defense industry is kept healthy to protect them from the capitalists. The concept of survival is basic to the Soviet social and political cultures.

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142 It is important, however, to stress that the Soviet economy is not likely to collapse. The question remains how well it can be fixed, and what sacrifices will be required in its fixing.


However, the trend in the USSR is to increase the benefits of socialism to the masses—to move beyond mere survival. Success in this effort is expected to bolster morale, improving the economy by productivity and making Soviet socialism more appealing. To promote these results, the means for modernization must be available. This necessity can be most rapidly fulfilled via advanced technology transfer with the West. Since the USSR will attempt to meet its perceived requirements legally or illegally (and always aggressively), Japan is in a position to benefit from high-tech trade with the Soviet Union. The businessman’s desire for expanded trade can be expected to be satisfied whenever the security risks are sufficiently limited and when the trade is not specifically prohibited by governmental regulations or agreements.
Economic relations between nations do not exist in a vacuum. As the world "shrinks" through improved communications, transportation, and expanded commerce, international interdependence generally expands. The key variables restricting the unhampered growth of globalism are politically based.

Each sovereign nation is primarily concerned with its own national interest (including standard of living and security). To avoid having the will of a superpower inflicted on them, nations generally either declare neutrality or join an alliance. Within either framework, a nation attempts to maintain its individuality while capitalizing as much as possible on the benefits of the position it has chosen.

The complexities of global co-habitation foster conflict between nations and alliances. Through international interaction, compromises or unilateral decisions determine the nature of national coexistence. Unilateral decisions are normally reached by victory in war or the threat of war. Peaceful coexistence is maintained through politically-driven concessions or compromise.

The USSR, although it is a military superpower, must weigh the economic, ideological, and political risks of imposing its will on less powerful nations by force. Acceptance by the West as a feared but respected superpower is important to the Kremlin's image. The expected, unacceptable consequences of pre-meditated bullying are a part of the deterrent which contains the USSR's ambitions for Soviet-socialist expansion. The potential affects of economic and social linkage to aggressive political/military actions at least keep the Soviet Union mindful that its international relations are not unchecked by the West.

Like the USSR, Japan is very concerned with the way it is perceived by others. Presentation of a strong and respectable image is very important. International embarrassment or humiliation is deeply felt and can cause emotional rather than rational responses to stimuli. Japan's character is more restrained and patient than the USSR's, but is no less intense.

The USSR is ruled by a political elite within one party--the CPSU. The executive organs are the CPSU's Politburo and Secretariat. Although the details of the decision-making process of the Politburo are not known, the process culminates in consensus.
Although internal power struggles are on-going, Soviet political culture demands that the leadership present a united front to outsiders.\textsuperscript{145} The Soviet people, in general, feel comfortable when led and protected by an undivided, centralized leadership. A stable government supports traditional habits of risk-avoidance, and fosters continued cultural emphasis on group survival rather than individual interest. The centralized Soviet state is, therefore, responsible for control of contacts with foreigners, as well. Consequently, business transactions with Japan will be subject to governmental approval, and will be affected by fundamental precepts of risk-avoidance and distrust of outsiders.

The Japanese government, although pluralistic in a Western democratic format, is also consensus-oriented. However, to a great degree it functions by compromise among its parties. By perpetuation of this system, all factions gain input to decisions and consequently receive a stake in political solutions. Private businesses are encouraged to economically diversify and grow, while the government maintains stability and national security. The Japanese government controls its private businesses' cooperation with the USSR by three basic mechanisms:\textsuperscript{146}

1. Japan refuses to make inter-governmental agreements with the USSR, but has no basic objection to expansion of economic ties between Japanese businessmen and the Soviet Union.

2. To ensure Japan's security and national interests, the government exercises leverage via export controls on strategically significant products and technology, and by control of loans, credits, and approval of the Export-Import Bank of Japan--indispensable for implementing projects.

3. Japan insists that any large projects involving the development of strategic resources (e.g. oil and natural gas) be conducted jointly with businesses from other Western nations, preferably the United States. This policy offers more leverage against potential Soviet failure to repay loans or debts than Japan could wield if only its own businesses were involved.


A. USSR

The USSR’s political system may be considered authoritarian. Its identifying characteristics, both structural and functional, determine the likelihood of a Soviet decision to increase trade with Japan and suggest procedures which can reasonably be expected in the implementation of the government’s ambitions. Structural considerations (such as political culture, the legal system, the media, and internal opposition forces) and functional notions (including political socialization, political recruitment, and political communication) have direct impact on trade with Japan due to the control of the government over all foreign trade.

Structural patterns of institutional behavior are primarily influenced by the political culture of the Soviet Union. Crucial to this component of the Soviet national will is the current thrust toward increasing the benefits of the system to the masses. Success in this area will increase the peoples’ stake in the system as well as being critical to the economic recovery.

The legal system is manipulated to demonstrate governmental support for new ideas. The current state of flux of economic legislation has caused many Soviets to be hesitant about risking personal attachment to the new proposals. Historical precedents of failed reform policies under Khrushchev inhibit rapid public acceptance of new concepts. Although the Private Enterprise law was effective on 1 May 1987, the Law on State Enterprise, fundamental to the proposed reforms, is still in the draft stage. Until testing and debate are completed, modernization will be hampered by distrust at the popular level. The end of economic debate and consensus on the final version of this basic law will be a signal for relatively safe acceptance of its principles.

Secretary Gorbachev’s domestic “glasnost” is a pragmatic policy designed to prepare the way for greater access to international information throughout the USSR. Gorbachev is facing the need to introduce mass-communication systems (for computer and data-processing modernization) head-on. Despite the use of “glasnost” by his opponents to attempt the undermining of his reforms, Gorbachev has not yet succumbed to the temptation to silence them by restoring tough, pro-regime editorial censorship. In fact, beyond withstanding the pressures of domestic glasnost, Secretary Gorbachev appears to have begun the process toward global glasnost by halting the

147 Barghoorn and Remington, Politics in the USSR, pp. 18-19.
149 Ibid., pp. 24-32.
jamming of Voice of America broadcasts directed at the USSR.\textsuperscript{151} Gennady Gerasimov, a spokesman for the Soviet Foreign Ministry,\textsuperscript{152} and Gene Pell, president of Radio Free Europe: Radio Liberty.\textsuperscript{153} both alluded to the concept that “forbidden fruit is the sweetest”. By relaxing information control, Secretary Gorbachev is providing a vehicle for the inroads of mass-communication and technological modernization, “legitimizing” the government as the proponent rather than the repressor of information flow.

Similarly, through relaxation of restrictions on emigration\textsuperscript{154} and the freeing of political prisoners, Gorbachev has inspired hope that an enlightened, humanitarian government is emerging.\textsuperscript{155} The entrenched ethnic Russian dominance of the system suggests that domestic nationalistic controversy will continue, and with it the historical Nippophobic and pro-Slavic racist attitudes of the ruling elite--a hindrance to any improvements between the USSR and Japan, including trade.

Among the functional political processes affecting Soviet-Japanese trade relations, the most important is certainly the USSR’s efforts toward direct political socialization within its own system. In the West, political socialization may be an indirect process. The system evolves in accordance with enlightenment or shifting focus of public opinion. In the USSR, continuation of the existing political system has traditionally been ensured by manipulating public beliefs, attitudes, and values. Control of the political socialization process has been possible by indoctrination within the education system, within youth and social groups, and through the media.

One of the bases of opposition to Gorbachev’s “glasnost” and “perestroika” campaigns is the fear of governmental bureaucrats, secure in the nomenklatura, that the preservation of their privileged existence is threatened. The CPSU has ensured its dominance over the system via highly selective political recruitment practices. The procedures also function to maintain the loyalty of the political elite by making their stake in the benefits dependent on support of the system.

\textsuperscript{152}U.S. News & World Report, 8 June 1987, p. 9.
\textsuperscript{154}“Jews Are Said to Leave Soviet at a Higher Rate”, New York Times, 2 June 1987, p. 3.
Secretary Gorbachev's overtures toward "democratization" have threatened the security of Party members at the middle levels by upsetting established procedures for appointment to official positions. Bureaucrats have reacted by disrupting implementation of "democratic procedures" in the nominations and elections of government and Party officials.\textsuperscript{156}

The USSR is undergoing a shock effect in reaction to glasnost. Secretary Gorbachev has demonstrated determination to prepare the way for expansion in communications capabilities. Rather than easing the nation into information access, he has chosen to bombard the people with new facts and ideas. Many Soviets already wish to return to the former situation whereby they trusted in the government to take care of them—reform efforts have promoted a sense of insecurity among much of the population.\textsuperscript{157} Glasnost has stirred up uncertainty.

Gorbachev knows that after the turmoil, the dust will settle. He aims to see the Party in a stronger position—as soon as the novelty of information overload has waned and the resistance to change has subsided. The vision he sees is a Soviet Union with the CPSU still in firm political control, militarily strong, economically modernized and energized, and more attractive to its population and to the world.

The drive for new openness suggests Soviet willingness to be more reasonable in its terms with foreign businesses. The threat which Gorbachev faces is comprised of impatience, perceived insecurity, and a lack of vision within the Party bureaucracy. Within this politically unstable framework, reasonable steps toward increased trade may be interpreted by Party apparatchiks as a demonstration of governmental weakness and as a long-range threat to their special position in the society. The longer Gorbachev survives politically, the greater the chance that the system will conform to his vision and that the USSR will offer greater incentives to trade with Japan.

B. JAPAN

The political system is a reflection of the fundamental political culture of the nation as well. Probably the most significant difference between the USSR and Japan in the political realm is that Japan is a pluralistic, Western democratic society. As such, Japan's government normally considers the needs of all the people and factions in reaching a consensus on specific issues. The Japanese political culture does not allow


minority groups to be ignored or elite groups to receive special officially-promoted advantages. Compromise is a traditional tool for offering all factions a stake in final decisions.

The recent disagreement over imposition of a sales tax serves as an example of the possible repercussions of efforts to circumvent this tradition. Prime Minister Nakasone's Liberal Democratic Party forced the proposed Japanese budget bill through a parliamentary committee--trying to speed up work on economic measures requested by the United States.\textsuperscript{158} Opposition parties reacted angrily and vowed to mount a filibuster. True to their word, a coalition of the opposition parties blocked passage of the budget by conducting three days of speeches and no-confidence votes in the House. After Nakasone gave in to the pressure and agreed to drop the proposed sales tax, the $380 billion budget passed in the House of Representatives within minutes.\textsuperscript{159} Anger at the attempted violation of the tradition of consensus overshadowed Nakasone's "good intentions" of working quickly to appease Japan's impatient American friends.

As in other highly literate countries, Japan's media holds great control over the political atmosphere of the people. However, true to its pluralistic, Western democratic foundations, the Japanese press is free to express its prejudices (including nationalistic emotions) as its editors see fit. Even under "glasnost", the Soviet press is still ultimately controlled by the government, whether formally or informally.

A representative portrayal of Japan's press was conveyed in an article in the \textit{New York Times} in May, 1987.\textsuperscript{160} The Japanese media was characterized as reliable, but tending toward the sensational. In Japan, as in the United States, "spice" sells newspapers. An example (within the article) demonstrated the media's exploitation of emotions which could lead to popular support of Japanese trade expansion with the USSR.

Nuances of translations were used to arouse anti-American sentiments. In discussing the U.S. Senate Finance Committee's version of the United States' trade bill, the concept of "adversarial trade" stirred up substantial controversy. The phrase


defines “conditions in which one country uses trade barriers combined with policies favoring certain industries to obtain advantages over a trading partner”.[61] Most Japanese newspapers translated the phrase “adversarial trade” as “teki-taitekei boeki”—i.e. trade in the face of an enemy. Such a strong public response was felt in Japan that the Japanese Foreign Ministry advised Japanese newspapers to change the translation to “sogai boeki”—i.e. obstructionist trade—the Ministry’s own translation of the phrase.

The newspapers responded in democratic fashion to the government’s advice. Mainichi Shimbun, a large Japanese newspaper, accepted the less sensational translation; Yomiuri Shimbun, Japan’s biggest-selling newspaper, retained the alarmist translation; and Asahi Shimbun, the second-largest Japanese newspaper, continued to use the original translation with the less-sensational one in parentheses.

The public clamor over this issue illustrates the power that the media wields in the Japanese consensus-oriented political arena. The point that Japan’s two largest newspapers opted for continued usage of the “negative” translation is noteworthy. Popular friction is growing among Japanese toward Americans.162 The USSR would benefit from deteriorating Japanese-American friendship by inhibition of progress on joint U.S.-Japan projects. However, close political ties between Japan and the USSR are prohibited by their failure to conclude a peace treaty following WW II. Japan refuses to consider such a peace treaty until the Soviet Union returns the Northern Territories.

C. USSR-JAPAN

1. SDI Interference

Japan’s participation in the Strategic Defense Initiative (SDI) has become a serious political issue in the USSR’s perceptions and rhetoric toward the relationship between the two countries. In 1985, when the Soviets saw Japan’s cooperation with the United States on SDI becoming a likelihood, they launched a threat and propaganda campaign. The Soviet press noted the imminent transfer of Japanese optical communications, electronics, and missile homing technology to the U.S., and added,
Facts indicate that acting on Washington's prompting, the Japanese ruling circles are pushing their country to the dangerous road of joint American-Japanese nuclear preparations.\(^{163}\)

In fact, under Japanese law, militarily applicable technologies can be exported only to the United States.\(^{164}\)

Japanese SDI-related frictions have not been limited to the Soviet Union, but have also extended to its Western allies. The Japanese, although they are very interested in the project, are wary of the potential for CoCom restrictions on the fruits of their SDI research. Japanese firms involved in the research would like to be able to apply developments to civilian products as well as to the SDI project. The Japanese Federation of Economic Organizations (Keidanren) has asked the Japanese government to work out the details of the Japanese participation in the SDI program.\(^{165}\) The Keidanren further requested that the government exempt techniques which have already been developed; they feel that restrictions on the grounds of military secrecy should not apply to research previously accomplished. The Japanese business community wants the freedom to apply developments to commercial ventures as much as possible.

Actually, the Soviet Union is not likely to attack Japan because of the SDI issue due to the high risk of almost certain U.S. intervention. But the Japanese will use economic appeasement of the Soviets as a means of maintaining as low a tension level as possible between the two nations.

2. Northern Territories

Within Japan’s pluralistic society, there is general agreement that Japan should not give up on the Northern Territories issue. However, there are significant differences among parties and interest groups regarding the specifics of the bottom line for settlement; views range from the return of only the Habomais and Shikotan, to the Japanese Communist Party’s contention that the Japanese should settle for no less than the Northern Territories plus the entire Kurile Chain.\(^{166}\)

The Soviet Union would like to settle its differences with Japan. Resolution of their mutual contentions would make economic cooperation simpler and would offer the Soviet Union another tool for separating Japan from its present allies. A

\(^{163}\text{FBIS (USSR, Daily Report), 8 November 1985, pp. C1-C2.}\)

\(^{164}\text{FBIS (Asia), 21 October 1985, p. C1.}\)

\(^{165}\text{FBIS (Asia), 21 October 1986, p. C3.}\)

\(^{166}\text{Berton, Asian Survey, December 1986, p. 1262.}\)

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U.S.-Japan rift would increase the USSR's opportunities for extending political influence within the Japanese government and culture. The promotion of detente by settling the Northern Territories issue could be an indisputable propaganda boost for Japanese perceptions of the Soviets. However, Soviet control of the Sea of Okhotsk as part of its "bastion concept" makes such a possibility unlikely at best. In contrast to the rationality of pursuing rapprochement, the USSR continually reduces its political standing among the Japanese by continued military buildup and refusal to admit that a Northern Territories question even exists.\textsuperscript{167} The Soviet Union's official position is that the question is already settled.

The CPSU's belief is that there will be an ultimate victory of socialism. Unless there were some other great gain ("two steps forward") to be made by making this territorial concession ("one step backward"), the USSR would be unlikely to give up the ground it has gained. By waiting, the Soviets believe that events will scientifically evolve to give them the advantage...scientific socialism is not in a hurry. Whether the forward-moving economic prospects of increased friendship with Japan will seem great enough to take a step backward, territorially and strategically, will be decided in the Politburo.

3. Political Indicators

In January 1986, Soviet Foreign Minister Eduard Shevardnadze visited Japan. His was the first visit by a Soviet Foreign Minister to Japan in ten years.\textsuperscript{168} During his visit a new Japanese-Soviet trade and payments agreement was signed which officially established the trend toward mutual trade and economic cooperation.\textsuperscript{169} The Soviets are attempting to correct the recent downward trend of Soviet-Japanese trade; after peaking at $5.5 billion in 1982, USSR-Japan trade was down to $4.2 billion in 1985.\textsuperscript{170}

As a "gesture of good will", the Soviet Union agreed to allow Japanese citizens to visit ancestral graves on the Northern Territories without submitting to Soviet political manipulation. The Soviets began requiring a visa to visit the islands in 1976. Japanese compliance with their demand would have implied agreement with Soviet


\textsuperscript{168}Berton, \textit{Asian Survey}, December 1986, p. 1273.


\textsuperscript{170}Berton, \textit{Asian Survey}, December 1986, p. 1273.
ownership of the Northern Territories. In 1986, the procedure was simplified when the USSR dropped the visa requirement for Japanese visits to the Northern Territories. Although the Northern Territories deadlock was not resolved, this relaxed visitation policy could eventually decrease some of the domestic pressure for the return of the Territories to Japan. On the other hand, the “generosity” of the USSR only served as a reminder of Soviet heavy-handedness and had the short-term effect of irritating many Japanese. Nonetheless, the agreement for reciprocal visits by Japanese and Soviet citizens to ancestral gravesites was announced on 1 July 1986, and the first visit by Japanese nationals began on 21 August 1986 with a group of forty-six persons to Shikotan and the Habomai Islands.

The USSR is experiencing political problems in Japan even with its Communist “comrades” there. The Japanese Communist Party (JCP) is willing to support the CPSU’s rhetoric for world peace and nuclear disarmament, and to eliminate the Japan-United States military alliance. Furthermore, the JCP vigorously protested the Japanese government’s refusal to allow a delegation from the Kampuchean Peoples’ Revolutionary Party (KPRP) to come to the JCP 17th Party Congress in Japan. But the CPSU was not pleased with the JCP’s stand on the Territorial issue-- the JCP believes that the entire Kuriles should be returned to Japan. The JCP was accused of being “in league with those who are pushing the country down the dangerous road of reassessing the outcome of World War II”. As a result, when the JCP Chairman, Tetsuzo Fuwa, later visited Moscow in August 1986, his scheduled meeting with Secretary Gorbachev was delayed for a week because Gorbachev was “suffering from a cold”. At their eventual meeting, the two simply agreed to strengthen the relations between their Parties.

Although the Japanese government would not allow the KPRP delegation to enter Japan, Vietnamese State Minister Vo Dong Giang visited Tokyo in October 1986. Japan, along with China and the ASEAN nations, has condemned the Vietnamese invasion of Kampuchea. Soviet relations with all those nations have been hampered by its enabling support of the Vietnamese action. Nonetheless, Japan did allow the Vietnamese Minister to visit, indicating that Japan is not closed to dialogue with the

171Ibid., p. 1277.
Soviet client. Vo Dong Giang declared during the visit that there is a 99.99% certainty that the Vietnamese pullout from Kampuchea will be completed by 1990.176

Small incidents tend to keep the nations politically on edge, despite efforts to relieve tensions. On 14 February 1986 a seaman from a Soviet trawler jumped off his boat in the Tsugaru Strait and was picked up by Japanese fishermen. When he arrived in Tokyo he requested asylum in the United States.177 Defections are politically embarrassing.

Three months earlier, in November 1985, a Soviet minesweeper in the Tsushima Strait fired three warning shots when a small Japanese fishing boat attempted to untie a rope which had coiled around the anchor of the minesweeper. The minesweeper left the area when two Japanese patrol boats arrived, but the Japanese government protested the incident (complete with the minesweeper's hull number and name).178

In some cases, political incidents become directly enmeshed with economic implications. In 1985, before disruption of the fishing accord talks, the Soviet fisheries minister had indicated during a visit to Tokyo that the USSR would not object to Japanese salmon fishing in the Northwest Pacific for at least two years, and implied that Japanese fishing would not affect the salmon stocks there for at least that long. However, when the negotiations began for the accords, the Soviet hard-line came into effect. The fisheries minister informed the Japanese that the USSR was waiting for a proposal from Japan for a joint plant to produce fish paste in Sakhalin179 before finalizing the accords. Thus, the latest salmon accords do not enhance a belief that the USSR will be a reliable business partner. Rather, they expect the Soviets to be highly manipulative in linking politics to economics.

The Japanese perceive the Soviets' political oscillations to be as unpredictable as the Kremlin's perception of the Americans'. Brezhnev stated in 1978 that the

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176FBIS (Asia), 21 October 1986, pp. C2-C3. This point is important to mention as the Vietnamese occupation of Kampuchea, and Soviet support of Vietnam, is a focal point of contention among the USSR, China, and ASEAN. Japanese bilateral relations with Vietnam consequently interest Japan's neighbors.


world is getting an even clearer picture of the United States as an absolutely unreliable partner in interstate ties, as a state whose leadership, prompted by some whim, caprice, or emotional outburst or by considerations of narrowly understood immediate advantage, is capable at any moment of violating its international commitments and nullifying treaties and agreements it has signed.\textsuperscript{180}

Although the United States’ unpredictability is generally ascribed to the American emotional character, Soviet unreliability due to party control and inflexibility of the centrally-planned system yields the same ultimate result. The Kremlin is either unwilling or unable to reconcile this common restrictor to effective commerce. Due to occurrences like the fisheries accords cited above, Japan suspects the same unreliability in bilateral dealings with the Soviet Union that Brezhnev expressed toward the United States.

But these doubts did not entirely cripple Soviet-Japanese negotiations. A Soviet-Japanese fishery accord, completed in April 1986, indicated that the governments are in fact able to reach compromises and will continue to conduct bilateral trade. However, the Japanese people are not entirely complacent about governmental political maneuverings. As part of the accord, each nation must provide one port for food supplies and rest of fishermen operating near each other’s territorial waters. When two Soviet trawlers entered Hitachi Port, 1500 policemen were called out to ensure control of about 330 anti-communist protestors against the port-call.\textsuperscript{181}

D. AMERICAN-JAPANESE RELATIONS

Ultimately, Japan depends on the United States for its security. But the Japanese Defense Forces are growing stronger and Japan is accepting greater responsibility for its share in the Western military power buildup--as a hedge against potential Soviet hegemonic maneuverings. Although some of the nations of the Far Eastern and Pacific regions are not entirely enthusiastic about growing Japanese military power (due to memories of World War II), the United States government is generally supportive of increased Japanese military participation for its own defense.


The Iraqi attack on the U.S. Navy guided missile frigate, the *Stark*, focused attention on the danger and expense of U.S. protection of its allies' interests in the Persian Gulf.\(^{182}\) Japan receives 56% of its oil from the Gulf region,\(^{183}\) but has no military presence in the area. Consequently, most of its petroleum imports (and its industry, by extension) are assured by the United States.

Since Japan's constitution prohibits power projection beyond its immediate environs,\(^{184}\) Prime Minister Nakasone has offered to relieve some of the U.S.'s superpower financial burden by contributing in other ways. Japan has pledged to contribute aid to third world countries (with no "strings" attached) in Latin America ($30 billion), Africa, and Asia.\(^{185}\) Moreover, Japan has offered to give the United States money to help cover the protection costs of its Gulf oil imports. Japan is, after all, the world's second-largest free market economy.\(^{186}\)

However, the United States' friend Japan has seemingly learned its economic lessons too well. Significant tensions and ill feelings have been generated as the U.S. and Japan have tried to constrain the Japanese economic surge from doing too much damage to the declining American status as the preeminent world economic power.

While the U.S. has enjoyed the side effect of reducing its budget deficit by the devaluation of the dollar, the Japanese have been experiencing the obvious affects of the rapidly appreciated yen\(^{187}\) -- growing unemployment (2.9%),\(^{188}\) decreased demand for its exports (down 4.6% in 1986 due to relatively higher international prices), and total economic growth slowed (to 2.3% in 1986). The yen has appreciated 70% against the dollar (from 260 to 153 per dollar) in two years. The U.S. has agreed to try to stop the continued devaluation of the dollar, while Japan promises to stimulate its domestic economy (to reduce exports and increase American imports to Japan).

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\(^{188}\)U.S. *News and World Report*, 9 March 1987, pp. 42-43. Data found in the rest of the paragraph is taken from the same report.
Unfortunately, both governments criticize each other, saying that agreements are not being kept and both are developing an attitude of wariness toward the other’s motives.

As Japanese businessmen seek to continue their expansion and profits, they have sought investments in foreign countries where their returns can be assessed in terms of relatively less valued currencies, culminating in greater competitiveness in world markets. As regards the topic of this paper, this is a positive prospect for Japanese investments in the USSR. But in terms of relations with the United States, a noticeable “American nationalism” is reacting against the surge of Japanese investments in the United States. Japanese businesses are establishing factories and buying important real estate across the United States. Americans are reacting with paranoia to their first serious taste of what American businessmen have been spreading to the world for decades. Many Americans fear that Japan is economically colonizing the United States.

The biggest issues between the United States and Japan have been the charges, against Japan, of microchip dumping, and of failure to adhere to a bilateral agreement whereby Japan would import more American semiconductors. The protectionist reaction by the United States resulted in the “incentive” levying of 100% tariffs on $300 million worth of selected Japanese electronic products. Although Japan has denied the dumping charges, it has nonetheless taken measures to appease the United States’ perception of the issue.

Allen Wallis, United States Under Secretary of State for Economic Affairs, attributed a great deal of the economic ill feelings between Japan and the United States to “unsupported and inflated rhetoric”. He maintained that “much of what is said is wrong and mischievous, serving selfish special interests at the expense of our national interest”. He stated that the real causes of the trade problem are in macroeconomics. Mr. Wallis delineated the six main elements of the American position on Japanese trade:

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1. Japan should restructure its economy to attract more foreign and domestic investment; the United States is seeking a gradual reduction of capital inflow into the United States.

2. Japan should liberalize its financial and capital markets by making them as accessible to American investors as the U.S. capital market is to theirs.

3. Japan should remove its trade barriers to allow export-import flow based on comparative advantage.

4. Entire industrial sectors should be opened through the MOSS (market-oriented, sector selective) talks.

5. Action will be taken under international law (or unilaterally if necessary) to remove unfair trade practices (e.g. U.S. unilateral punitive tariffs due to alleged Japanese microchip dumping).

6. The United States and Japan must cooperate to strengthen the world trading and monetary systems.\(^\text{194}\)

Japan has, in fact, initiated measures to respond along the proposed lines.

- Domestically, Japan is attempting to stimulate economic growth to encourage the purchase of imports and narrow its trade surplus. The government, on 29 May 1987, approved a package for public works spending and tax cuts totalling $42 billion.\(^\text{195}\)

- Three British investment banks are expected to gain membership on the Tokyo Stock Exchange,\(^\text{196}\) and four major American commercial banks will be permitted to establish securities underwriting and trading operations in Tokyo.\(^\text{197}\)

Japan has plans to increase purchases of U.S. supercomputers, and to purchase fighter aircraft from the United States rather than to build their own. About $1 billion is expected to be spent on imports, mostly from the U.S., to help reduce the American trade deficit with Japan.\(^\text{198}\)

In a speech at Stanford University in May 1987, the U.S. Secretary of State, George Schultz, warned that the United States can no longer be counted on to provide the impetus for world economic growth. He urged other nations to change their policies of depending on the United States.

\(^{194}\)Ibid.


\(^{196}\)Ibid.


In years past, a vigorous and open American economy served as the major engine of global growth. But in a world economy with increasingly diverse centers of productive capacity, the United States cannot continue to perform this function alone.\footnote{Commenting on the need for Japan to reduce its trade surplus, he stated that such steps by Japan would benefit the Japanese people and the global economy as a whole.}

Although coordinated policies are needed to stabilize the world economy, political leaders generally continue to prioritize national economic and political interests ahead of global considerations. This fact is not surprising. Politicians in the West tend to put popular appeasement and re-election ahead of realistic, long-range objectives. Furthermore, inter-governmental agreements increasingly seem to create a gap between words and actions.

Most international attempts at stabilizing the free-market economies consist of governmental plans rather than accomplishments. The U.S. continues to pressure its Allies to help reduce the American budget deficit rather than to take decisive but unpopular unilateral steps (e.g. domestic tax increases). The Allies resist U.S. pressures, feeling that their own national growth should not be hampered by America's relatively declining economic power. Japan has "planned" a number of appeasing measures, has actually made a few significant concessions, but will understandably continue to balk at being blamed for the United States' overextended economic condition.

E. ASIAN-PACIFIC INTERNATIONAL

Soviet and Japanese interests in the Asian-Pacific region are of political and strategic significance even by geographic considerations alone. Moreover, the Soviet Union fears anything foreign. In particular, as regards Japan, the USSR fears development of an anti-Soviet political entente which might threaten its borders. Unlike its situation in Europe, the Soviet Union has not been able, in Asia, to develop a complete security system with established buffers between its own territory and its opponents.

1. China

Geographically, the most immediate political and military threat to the Soviet Union comes from China. Although China is largely still very backward and has only

a limited nuclear capability (see Table 6).\footnote{Dr. J.J. Martin, "Appendix," The Soviet Far East Military Buildup, Solomon and Kosaka, eds., 1986, pp. 272-274.}

\begin{table}
\centering
\caption{FAR EAST NUCLEAR FORCES, 1985}
\begin{tabular}{|c|c|c|c|}
\hline
 & CHINA & USSR & U.S. \\
\hline
ICBM & 2 & na & na \\
MR IRBM Launchers & 110 & 135-171 & 0 \\
MR Bombers & 120 & 250 & 14 \\
Nuc capable tac air & na & na & 324 \\
SLBM Launchers & 12 & 405 & 120 \\
SSBN's & 1 & 31 & 5 \\
\hline
\end{tabular}
\end{table}

The existence of a 4575-mile common border causes the Sinophobic Soviets considerable unease.\footnote{Robert A. Scalapino, "Asia in a Global Context: Strategic Issues for the Soviet Union," The Soviet Far East Military Buildup, Solomon and Kosaka, eds., 1986, pp. 26-30. A concise presentation of the major issues and options for Sino-Soviet military considerations.} The USSR’s Chinese unease was not alleviated any when Japan and China signed a peace treaty in 1978. The Soviet Union particularly protested the “anti-hegemony” clause of the treaty which the USSR viewed as a direct threat to itself. Although the treaty stated that the clause was not directed at anyone in particular, the Soviets were unconvinced. Then, China began to show rapid economic progress—in great part due to its rapprochement and new trading opportunities with Japan and the United States.\footnote{\textit{Business Week}, 27 October 1986, p. 63; \textit{Christian Science Monitor}, 6 November 1986, p. 2. e.g. On 30 October 1986, U.S. Secretary of Defense Caspar Weinberger made a $550 million deal with the PRC for aircraft radar and electronic equipment. From 5-11 November 1986, U.S. Navy ships visited Qingdao, home of China’s “north sea” fleet.} Deng Xiaoping projects that via the “socialist market economy” China will become a major power by 2050, or even sooner. Although China has suffered political growing pains along with its economic growth, the USSR is not comfortable watching this great power grow on its border.\footnote{Henry S. Rowen, "Distant Relations: Links Between Asian and European Security," The Soviet Far East Military Buildup, Solomon and Kosaka, eds., 1986, p. 226. The Chinese are trying to reduce their conventional military defense manpower from 4 million to 3 million, and possess very limited nuclear assets. However, Deng Xiaoping does not believe that a major war is a near-term likelihood. Once the PRC’s economic}
Paranoia has been inspirational to the Soviets both in attempts to reach a reconciliation with China and to borrow ideas from China's economic success.²⁰⁴

In view of Soviet overtures to the Chinese in the past few years, relatively little progress has actually been made in USSR-PRC interactions. Although relations are well-advanced since the era of competing socialist camps, Soviet attempts to entangle China in its political peace initiatives have been only politely considered.

In his July 1986 "Vladivostok Speech" General Secretary Gorbachev indicated that the USSR was very desirous of further improving Sino-Soviet relations.²⁰⁵ He spoke of the common socialist bond, the common priority of socio-economic development, the joint development and usage of the Amur River, a railway link between Kazakhstan and the Xinjiang regions, and mutual exchanges in culture in education. He said, "We hope that in the near future the frontier which divides us, I would like to say which unites us, will become a zone of peace and friendship."

Starting in 1983, the Chinese had begun building Soviet bloc relations by visits from CCP leader Hu and/or Foreign Minister Wu Xuequian to the DDR, Hungary, Yugoslavia, Poland, Czechoslovakia, and Bulgaria.²⁰⁶ Following the Vladivostok Speech, the USSR reciprocated by allowing General Wojciech Jaruzelski, head of the Polish Communist Party, to pay a 3-day visit to China in September.²⁰⁷ He met with both Deng Xiaoping and the CCP chief Hu Yaobang. Next, Erich Honecker, the leader of the DDR, visited China from 21-26 October 1986. East Germany, as the most industrially advanced of the East European nations, can offer China some technology and industrial equipment at a cost lower than Western nations.²⁰⁸ Visits by Janos Kadar (Hungary) and leaders from Czechoslovakia and Bulgaria are expected to follow.

base is established, defense may move from its present position as the last priority of the "Four Modernizations".


²⁰⁶Ibid.

²⁰⁷Christian Science Monitor, Ibid.

But China is skeptical about Soviet objectives and has made three difficult political demands of the USSR. Until the USSR meets these demands, China will refrain from serious considerations of a Sino-Soviet rapprochement:

1. The USSR must end support for Vietnam's intervention in Kampuchea.
2. Border issues include reduction of Soviet forces along the Chinese border to pre-1965 levels and withdrawal of Soviet troops from Mongolia.
3. Soviet troops must be withdrawn from Afghanistan.

The USSR has made token, but encouraging, concessions on the second and third points. China responded by resuming consular relations with the USSR's friend Mongolia in August 1986. But the key to the USSR-PRC relationship lies in the Kampuchean issue. The most serious obstacle to a serious Sino-Soviet rapprochement is Deng's refusal to meet with Gorbachev until the USSR has withdrawn support from the Vietnamese invasion of Kampuchea. This seems the least likely issue to be resolved. Vietnam, although it receives 53 million per day in general aid from the USSR (plus more for its Kampuchean occupation), is independent-minded.

Meanwhile, the USSR supports the Vietnamese to guarantee its usage of the military facilities at Cam Rahn Bay and Da Nang, while the PRC supports the Khmer Rouge and conflicts with the Vietnamese on its own China-Vietnam border. Since the Soviets want to keep their bases in Vietnam, they have encouraged a Sino-Vietnamese reconciliation--attacking the obstacle from an indirect angle. The Soviets have stated that they cannot make decisions for third parties, i.e. Vietnam and Afghanistan, officially removing themselves from China's displeasure in those two countries.

210 Christian Science Monitor, 10 September 1986, p. 16.
211 Economist, 24 May 1986, pp. 44-46. The Vietnamese state that they will be out of Kampuchea by 1990. But mutual suspicions are growing between the guerillas and Vietnamese; the guerillas perceive that the Vietnamese are trying to annex Kampuchea, and the Vietnamese voice their prediction that the Khmer Rouge would take over any settlement-decided government in Kampuchea as soon as the Vietnamese had withdrawn.
212 Christian Science Monitor, 10 September 1986, p. 6. Cam Rahn Bay is the USSR's largest naval base outside the Warsaw Pact; it normally has 20 ships and six attack/cruise missile submarines, and 24 long-range or strike aircraft.
Japan’s approach to China is less threatening than the USSR’s. Japan has taken advantage of Chinese economic pragmatism to establish a foothold in the PRC. Sino-Japanese trade grew from $8.9 billion in 1983 to $19 billion in 1985.

Japanese companies in China have demonstrated the business strategy which has made them successful worldwide. While other nations are hesitant about the Chinese government’s unpredictability and about near-term losses, Japanese businesses are taking the risk of unhesitatingly investing in the potential of Chinese markets. Despite Chinese historical animosity toward Japan (especially recalling Japanese atrocities in China during their recent war from 1937-45), more than 300 Japanese companies have established offices in Beijing alone. The Japanese expect that their positive trading reputation (i.e. good service and low prices) will break down historical distrust and anger, and that future trade will offset current losses suffered in becoming established.

Since Hu Yaobang, a friend of Japan, was dismissed from his post as Chinese Communist Party General Secretary (in January 1987), diplomatic relations between the PRC and Japan have cooled. Japanese businessmen continue to work toward establishing economic relationships which will pay off in long-term profits—despite acknowledged short-term losses in current trade. Even now, Japan is responsible for 29% of China’s imports, compared to 11% from the United States. Through economic persistence, Japan is building important ties to China through attractive deals in both goods and financing.

Overall, Japan appears to enjoy a substantial political advantage over the USSR in ties with China. The Soviet Union is a superpower, but its political and military strength make it potentially more dangerous than valuable to China. Japan, although not a socialist nation, offers economic resources which China can tap as it needs, except in strategically restricted goods and services.

Even more discomforting to the Soviet Union have been the series of developments which have strengthened Japanese and Chinese ties with the United States. Although the United States does not own any territory in close proximity to the contiguous Soviet-Japanese boundaries, its Pacific Fleet, ground forces in the Republic of Korea (ROK), military facilities and access to ports in Japan, the Philippines, Australia, and China, all highlight the continual presence of the U.S. threat to the Soviet Union. Obviously, the U.S. threat in Asia is primarily nuclear, but the

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concept of an American-Japanese-Chinese anti-Soviet entente will never be passively accepted by the Soviets. In addition to the blatant military affect of U.S. forces in the area, the U.S. strategic and theater forces there have developed political forces which restrain the Soviet Union from pressuring Pacific nations into economic deals.\textsuperscript{215}

2. ASEAN and the "All-Asia Security Conference"

The All-Asia Security Conference proposed by General Secretary Gorbachev is a variant of the Asian Collective Security System proposed by Brezhnev in 1969.\textsuperscript{216} Brezhnev’s system was intended to develop Asia under the leadership of the Soviet Union and to contain China’s influence in the region.\textsuperscript{217} The result was that an American-led rapprochement developed in Sino-Japanese and Sino-American relations by the late 1970’s.

The new variant, the proposed All-Asia Security Conference, seeks to achieve basically the same goals as Brezhnev’s plan through a peace offensive and attempts to drive wedges among the regional nations and the United States.\textsuperscript{218} As part of its plan to further its own standing in Asia, the USSR has attempted to increase its bilateral and multi-lateral exchanges with the ASEAN nations.

The ASEAN and "Oceania" nations are suspicious of the USSR and are simultaneously open to the overtures of the U.S., Japan, and China. The ASEAN nations, in particular, protest the USSR’s backing of continued Vietnamese occupation of Kampuchea. The Chinese, particularly interested in preventing a united Indochina under Vietnamese control, have led them in the protest against Vietnam’s expansion into Cambodia.

The Chinese ties with ASEAN, in opposition to Vietnam and its Soviet benefactor, have given China an edge over the USSR in competition for ASEAN friendship.\textsuperscript{219} Japan has also expanded its influence in ASEAN via aid and trade,


helping to dispel recent memories of Japanese military expansionism during WWII and subsequent fears of a resurgence of that militarism. Chinese and Japanese influence together has hindered Soviet efforts at gaining significant influence in the region.

**F. WESTERN EUROPE**

The major political impact of Western Europe on Soviet-Japanese relations is embodied in two issues. The first concerns West European condemnation of Japan for its trade surplus, and its failure to open its domestic markets to foreign investment and imports. The particulars are basically the same as those discussed in the Japan-United States section of this chapter and will not be elaborated further. The point of the problem is that continued Japan-bashing by the West European nations demonstrates a dangerous insensitivity to Japanese accomplishments and contributions to the West in general. If Japan becomes alienated from the Western camp, the potential for it to turn to the USSR is greatly enhanced.

The second issue revolves around the arms reduction proposals for Europe. The proposed "double-zero" option treats Japan as though it exists in a vacuum, rather than as an important member of the Western Alliance. Although geographically NATO is concerned with Europe, the scope of the Alliance's perspective on this issue should extend to include all its friends.

Moscow's proposal is that both short-range (300-600 miles) and intermediate-range (more than 600 miles) nuclear forces (INF) be eliminated from Europe. However, the Soviet proposal would allow the USSR to maintain one hundred SS-20's east of the Urals, and one hundred U.S. missiles on U.S. territory, but not in Alaska. The SS-20 issue will be discussed in greater detail in the next chapter. The political implication of accepting this proposal is that the SS-20 threat to China and Japan is acceptable. Psychologically, this "abandonment" of Japan to Soviet INFs is a serious matter. Relieving NATO members of the INF threat separate from Japan creates psychological disunity of purpose among Western nations.

Japan will have little actual input to resolution of this geographic issue. The negotiations are bound to cause second thoughts among the Japanese about their position and value within the Western camp.

In summation, Japan and the Soviet Union are, at present, pursuing mutual economic interests as much as possible while political relations are simmering on a back burner. The key political issue separating the two is the Northern Territories

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question. For Japan the issue is primarily emotional and cultural--nationalistically-oriented. For the USSR the islands represent a strategic military asset. Neither player is likely to concede the game under the present circumstances.

Within their geographic environs, the Japanese and Soviets both evoke a cautious attitude from their neighbors. Japan’s martial history has not been forgotten. Its economic prowess produces a gnawing paranoia that Japan’s technological industrial success could be transformed into a renewed expansionist Japanese threat. Japanese nationalism, even if economically-oriented, causes a fearsome doubt in the region. The Soviet Union’s political overtures in the region have met with little success. The secretive, conspiratorial nature of its centralized political process offers little incentive or enticement to join its mysterious and unpredictable camp. Through projection of military power, the USSR intimidates regional nations into limited cooperation for appeasement, and simultaneously ensures that the threatening giant will make no real friends.

The United States, despite economic bickering with Japan, provides political superpower friendship. The Western Alliance benefits greatly from Japan’s example in modernization and economic innovation, despite the disorienting impact on capitalists who are slow to adapt to the demonstrated effectiveness of Japanese managerial methods and modernized industrial techniques. The Soviet political peace offensive is not fulfilling objectives of economic modernization transfers from the West. The United States, primarily responsible for deterrence and military parity against the USSR, has protected Allied technological advantage as much as possible. Soviet efforts to stir up business lobbies have been managed successfully so far by the U.S. and Japanese governments.
V. MILITARY

The national military status of both Japan and the Soviet Union plays an important role in their potential for trade. Security is one of the fundamental national interests of all nations. The USSR's security is provided by its own military. Japan relies on the United States for its global security, although it maintains nominal Self-Defense Forces (SDF). The unequal military strengths may affect Japanese-Soviet trade in the following ways:

- Soviet *intimidation* efforts alienate Japan from interacting in the political/economic arenas.
- Soviet *detente* efforts increase the potential for official rapprochement while spreading uneasiness about their "real" intentions.
- Japan attempts to hold the USSR at bay by *appeasement* via relaxation of trade restrictions, neatly employing separation of economics from politics.
- Japan denounces the Soviet military buildup and uses actual or threatened trade *sanctions* as leverage toward security objectives.

The USSR attempts to weaken domestic Japanese domestic consensus on security cooperation with the United States to lure Japan away from its Western security orientation. The Kremlin uses whatever technique (intimidation or detente) seems appropriate for the moment to promote an attractive image of itself or to foment frictions between the United States and Japan.

Although some of these points appear contradictory when first examined, their utilization as political tools is clarified within the context of specific examples. The fluctuation of international relationships over time allows extreme variations of political maneuvering—especially regarding the often unpredictable and inconsistent Soviet and American policies.

A. USSR

From the Soviet perspective, its nuclear and conventional forces are maintained at a high level in order to deter an invasion of the Soviet Union by enemies. Individually, the USSR's opponents do not pose much of a threat in Asia. The United States and China are its two most potent adversaries.

The USSR fears that an effort is underway, with collaboration between the U.S. and the PRC, to establish a "second front" against it—a Northeast Asian equivalent to
This new alliance supposedly would include Japan and South Korea, as well, and be directed specifically against the Soviet Union.

The highest military and diplomatic priority in dealing with threats to Soviet national security goes to strategic nuclear weapons. Only the United States can offer an immediate strategic challenge to the USSR. The U.S. does not have the political basis (domestic or international) nor a large enough conventional force to invade the Soviet Union. A U.S. preemptive nuclear attack without provocation is inconceivable (although the Soviets are not necessarily convinced!). Nonetheless, the USSR is inclined to believe that by militarily intimidating Japan it can lessen the U.S.' ability to maintain a nuclear presence in the Pacific.

The USSR knows that China is not readily intimidated. The recent Soviet attempts at rapprochement with China are largely motivated by the security implications of the PRC's increased ties with Japan and the United States. The Sino-Japanese (August 1978 Treaty of Peace and Friendship) and Sino-American (December 1978 finalized restoration of diplomatic relations) normalizations intensified the USSR's already weighty Sinophobia. Soviet fears are logically built on the rapid growth of China as an economically prospering nation, made possible by its pragmatic (and fruitful) openness to Japan, the United States, and Western Europe.

Although China has made some beneficial deals with the West for military equipment, its focus is not on military growth. China has decided to greatly emphasize a healthy economy over military expenditures. In fact, the PRC is trying to reduce its conventional military forces from 4 million to 3 million; it has only developed a large enough nuclear capability to deter a Soviet attack on its territory.

The USSR has drastically built up both its nuclear and conventional forces in the Far East (discussed in more detail below). The outstanding issue, both from political and security standpoints, involves the "Northern Territories" issue. To reiterate, Japan claims that the islands of Shikotan, the Habomais, Kunashiri, and Etorofu (between Hokkaido and the Kurile Islands) are historically its territory, and that the USSR must return control of those islands to Japan. The Japanese will not conclude a peace treaty with the Soviets until such action is accomplished.

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For the Japanese, the issue is more political and historical than strategic, but for the Soviet Union the Northern Territories have strategic significance. Control of the disputed islands increases the Soviets' capabilities for controlling access to the Sea of Okhotsk for its fleet, through the Soya Strait and along the island chain from Japan to the Kamchatka Peninsula. Having its own troops stationed on the disputed islands eliminates the possibility that Japan (or its allies) will station forces and equipment there. Such forces could facilitate monitoring, impeding, or destroying Soviet naval forces in the Sea of Okhotsk.

The movement of the Soviet Naval forces in the Sea of Okhotsk is, to a large degree, controlled by the Soya (La Perouse) Strait, Hokkaido, and the islands of the Northern Territories. Moreover, Japan controls the Straits of Tsushima and Tsugaru from the Sea of Japan into the East China Sea and the Pacific Ocean, straits which are critical to the Soviet Pacific Fleet's freedom to maneuver and to protect the Sea of Okhotsk bastion.

Superficially, the Soviet bastion concept is simple. The USSR locates its primary survivable strategic nuclear forces--ballistic missile submarines (SSBNs)--in a defensible area. In time of war, the Soviet fleet establishes an echeloned defense to protect the SSBNs from destruction by enemy air and sea anti-submarine warfare (ASW) assets. The Sea of Okhotsk is believed to be one of the USSR's bastions. From the Sea of Okhotsk, Soviet SS-N-18s can reach most of the continental United States. Maintenance of its strategic capability to attack the United States is critical to the USSR's security consciousness. Therefore, the Soviet Union needs to retain control of the approaches to the Sea of Okhotsk to enable the echeloned deployment of its Navy's air, surface, and sub-surface assets in defense of the bastion.

In 1945 Stalin declared that the island chain was both a gateway to the Pacific and a wall protecting the Soviet Far East. The Soviet perception of the island chain as a "screen of steel" and a "1,000-kilometer cossack sabre" has been bolstered by the USSR's bastion strategy.

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The Northern Territories stretch across approximately one-quarter of the distance from Hokkaido to the Kamchatka Peninsula. Soviet conventional troops have been stationed on the Northern Territories and Kurile Islands to ensure Soviet control of the surrounding waters. Western occupation of the islands would obviously increase Soviet problems of controlling access to the Sea of Okhotsk. In the event that the USSR relinquished/returned the islands to Japan, the Soviet Navy would have to contend with a new threat on the southeastern edge of its bastion, as well as with the three straits noted above.

If the USSR were to "trade the Northern Territories to Japan for technological economic gains, its current national defense strategy would suffer a severe setback. There is, however, one possible concession which would have limited impact on the Soviet strategic concerns. The key islands in the Northern Territories (for continuity in the "chain of steel") are Kunashiri and Etorofu.

Since Shikotan and the Habomai Islands are small and lay south of the two large islands, their "loss" could be acceptable to the USSR if a substantial economic objective was realized by the deal. However, exactly that deal was almost concluded in 1955, but fell through. When the Soviets responded favorably to a Japanese memorandum offering a peace treaty in exchange for Shikotan and the Habomais, the Japanese cabinet overruled a compromise settlement made by the Foreign Minister with Moscow.225

Whether the reversal was due to Japanese internal politics or because of U.S. pressure to divert a Soviet-Japanese rapprochement, the point is that a compromise agreement was once almost reached. It is not inconceivable that the evolution of political relations will once again provide an opportunity for a settlement--one which would likely contain economic accessions for the USSR.

The USSR has considerably built up both its theater nuclear (see Table 7) and conventional forces in the Far East during the past 10 years. The reasons for the Soviet military buildup in the Far East and Pacific can be outlined as follows:

- To provide security for the USSR by protecting the Far East from attack and by guarding its strategic missile forces in the Sea of Okhotsk (and elsewhere in the Pacific).
- To inhibit American, Japanese, or Chinese consideration of "rolling back" the USSR in the region.

225Ibid., pp. 126-27.
• To project military power in opposition to the American Seventh Fleet and U.S. bases in the Pacific.
• To emplace forces capable of protecting its own sea and air transport assets while challenging the security of sea lanes of communication between the U.S. and its allies in Asia.226

Its military buildup can further be examined in the context of its foreign policy objectives toward Japan:
• To prevent closer ties, or break down present ones, between Japan and the United States.
• To drive wedges in Japan's anti-Soviet alliance relations.
• To reduce Sino-Japanese cooperation.
• To undermine Japanese "militarization".
• To promote increased economic ties between Japan and the USSR.
• To sidestep the Northern Territories issue, or advantageously eliminate the problem.227

The Soviets perceive the Japanese as ultimately vulnerable to intimidation. Because Japan maintains only a small military force of its own, and due to its vulnerability to importation of food, natural resources, and raw materials, the USSR persists in attempting to coerce Japan toward the Soviet camp by military visibility. The USSR is successful in clearly demonstrating its power for aggression, but generally unsuccessful in achieving the desired effect. The Kremlin's power projections have largely driven the Japanese closer to their Western allies.

However, the new Soviet peace offensives have cast additional light on the subject, illuminating different aspects of the relationship. The new face of the Soviet leadership offers hope that a new mentality has emerged, as well. The change in world opinion toward the Politburo helps to alter the frame of reference from which military developments are viewed.

It is possible that the trend in Japan will mirror the trend in Europe--the USSR is perceived as less threatening by virtue of the rhetoric of detente, arms control and reduction, glasnost, and perestroika. Although virtually nothing has changed, the

media bombardment with "happy talk" has suddenly made the USSR a friendly adversary, decreasing the urgency for allied unity against the potential Soviet threat.\(^{228}\)

The Soviets have traditionally maintained that the necessity for a large military force is a defensive consideration--an extension of their preoccupation with survival. The Soviet military buildup in the Far Eastern TVD over the past twenty years has gone beyond the requirements of defense. Military forces there include:

- 53 divisions of ground forces with approximately 32,000 armored vehicles supported by 1700 tactical aircraft. Approximately one division is located on the islands of the Northern Territories.
- One naval infantry division based in Vladivostok.
- Combined Naval Aviation and Air Force Backfire bombers total 80.
- The Soviet Pacific Fleet includes 83 principal surface combatants, 90 attack submarines, and approximately 25 SSBNs.
- More than 170 SS-20 INFs are deployed at 15 or more bases in central and eastern USSR.\(^{229}\)

Of the ground divisions in the above count, approximately 15% are considered Category 1 (75-100% of wartime manning strength). About 35% are Category 2 (50-75%) and 50% are Category 3 (presently at cadre strength). These last two categories would require a mobilization to bring them up to fighting strength. The mobilization process in the Far East portends some potentially serious problems for Soviet planners. The non-Slavic ethnic heritage of most Asian inhabitants raises questions of political/military reliability and combat readiness of units filled by local reservists.\(^{230}\)

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\(^{230}\) S. Enders Wimbush and Alex Alexiev, *The Ethnic Factor in the Soviet Armed Forces*, Rand Report R-2787/1 (March 1982): pp. 49-50, passim. Non-Slavic minorities seldom receive combat training in the military because of the potential for turning that training against the Russian regime. Consequently, mobilized reservists in predominantly "minority" regions are very likely to have had inadequate combat training, even at the basic level. The reliability of those forces to support the Russian-dominated regime is also questionable, as a consequence of second-class treatment in everyday Soviet affairs and overt racism within the Soviet military.
The Pacific Fleet has shown marked growth. It is now the largest of the four Soviet fleets. The Soviet Pacific Fleet totals an impressive 1.5 millions tons (although many of the craft included are very old and very small), compared to the 650,000 tons of the American Seventh Fleet.\(^{231}\) Especially notable are the addition of the Kiev-class carrier *Minsk* to the Fleet in 1979 and a second Kiev-class carrier, the *Novarossisk*, added in 1984. The presence of 15 Delta-class SSBNs, 8 Yankee-class SSBNs, and 90 attack submarines located in the Sea of Okhotsk and Sea of Japan is evidence of the bastion concept being employed there. The Delta-class subs are equipped with either the SS-N-8 missile (8,000 kilometer range) or SS-N-18 (7,500 kilometer range) and the Yankee-class SSBNs with SS-N-16 missiles (1,600 kilometer range).\(^{232}\)

The Soviet Union could actually afford to make political “concessions” to the Japanese or Chinese in exchange for economic benefits by withdrawal of large numbers of conventional forces.\(^{233}\) The USSR would still maintain an ominous threat via its Far East nuclear arsenal, perhaps a more effective deterrent than masses of troops.

One of the inherent advantages for a Soviet switch to greater reliance on nuclear forces, rather than conventional, would be that nuclear weapons require lower manning levels. In the U.S., nuclear forces have greater utility than conventional ones due to political pressure (i.e. in peacetime the American public will not permit a lot of men at arms, so nuclear weapons become the solution for deterrence).

The question of political reliability among ethnic minorities, coupled with the relative demographic decline of draft-age ethnic Russians,\(^{234}\) suggests that the USSR

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\(^{232}\) Young-Sun Ha, “The Soviet Military Buildup in the Far East: Implications for the Security of South Korea,” *The Soviet Far East Military Buildup*, Solomon and Kosaka, eds., 1986, pp. 142-143. The relatively short-range SS-N-16s are a specific threat to Japan. Sapporo, Japan, can be targeted from anywhere in the Sea of Okhotsk except the extreme northeast corner, and Tokyo can be targeted from approximately 50 degrees latitude southward-about one-third of the Sea’s area.

\(^{233}\) The USSR is making overtures to the Chinese about reducing troop levels along their common border, and has discussed pulling some of its conventional forces out of Mongolia as a further “carrot” to the Chinese. The USSR is less likely to withdraw its troops from the Northern Territories due to their geostrategic significance in the Sea of Okhotsk bastion. The counter-argument is that the disputed islands can not give Japan a significantly greater advantage than it already has in the location of Hokkaido over the Soya Strait.

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will continue to build its strategic nuclear forces. The prudent solution to the Soviet balance between conventional and nuclear forces would favor nuclear forces. A credible conventional threat would simultaneously be maintained by reliance on the deterrent potential of Category 2 and Category 3 divisions—more fearsome on paper than in reality.

The most formidable nuclear weapon which has disturbed Japan and its Asian neighbors is the SS-20. The USSR has deployed between 135-171 SS-20’s in the Far East and Central Asia (see Table 7). These long-range intermediate nuclear force (INF) weapons are capable of striking targets anywhere in Asia from their bases in Central Asia and the Far East. Whereas the Sea of Okhotsk bastion forces are primarily a strategic asset for use against the United States, the land-based SS-20s threaten Japan from almost anywhere east of the Urals.

B. JAPAN

Since Japan and China concluded their peace treaty in 1978, the USSR has increasingly been recognized by the Japanese as the primary challenge to their security. Despite Soviet peace initiatives, Japan is reminded of the Soviet Union’s potential for military coercion by events of this past decade:

- The USSR has developed and expanded its military forces on the disputed Northern Territories.
- The USSR invaded Afghanistan and continues to wage war against the populace there. The USSR is also supporting the Vietnamese invasion of Kampuchea.
- The USSR has deployed large numbers of SS-20s in Asia and does not appear likely to bargain those forces away.

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235 J.J. Martin, “Thinking About the Nuclear Balance in Asia,” *The Soviet Far East Military Buildup*, Solomon and Kosaka, eds., 1986, pp. 61-63. Each SS-20 launcher is assessed to have one refire/reload missile, and each missile has three Multiple Independently-targetable Re-entry Vehicle (MIRV) warheads. The maximum range is 5000 kilometers.

236 Michael R. Gordon, “Soviet Proposal Would Disarm Bonn’s Missiles,” *New York Times*, 28 April 1987, pp. 1,2. The arms reduction proposals by the USSR in April 1987 that is keep only 100 SS-20s, all east of the Urals, does not seem very encouraging to the Japanese. The separation of Europe from an overall Allied security perspective gives the appearance of isolation of Japan from the global “Western” partnership. However, the proposal does not actually remove the SS-20s from the NATO picture, either. SS-20s sited near the Yenisey River in Central USSR could target either Bonn or Tokyo.
The USSR has periodically threatened Japan because of its security ties to the United States. The Soviet Union has accused Japan of remilitarizing. The USSR complains that Japan's remilitarization significantly decreases regional stability. These accusations are directed more at preventing Japan from developing its potential, than at any truly ominous current capabilities.

Japan has the eleventh largest military force in Asia (counting the USSR)—it is hardly a "militarized nation" when compared to its industrial capability and its potential for militarization. Japan's decision to spend above its previously self-imposed limit of 1% of GNP is not as serious an issue as the USSR would like to assert. If considered in the same terms as European countries, Japan was already spending well over 1% of its GNP on defense.\textsuperscript{237} Although its GNP is so large that Japanese defense spending almost equalled the European allies (see Table 8), the percentage of GNP spent on defense is low, and was perceptibly miniscule in terms of dollars per person.

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<th>Outlays (bn $)</th>
<th>% of GNP</th>
<th>$ per person</th>
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<tbody>
<tr>
<td>Japan</td>
<td>22.0</td>
<td>1.0</td>
<td>182</td>
</tr>
<tr>
<td>West Germany</td>
<td>27.2</td>
<td>3.1</td>
<td>445</td>
</tr>
<tr>
<td>France</td>
<td>27.7</td>
<td>4.0</td>
<td>499</td>
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<tr>
<td>Great Britain</td>
<td>38.7</td>
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<tr>
<td>United States</td>
<td>292.6</td>
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Upon the decision to surpass the 1% mark, the Japanese government emphasized that it still promoted the non-military perspective adhered to previously, but had removed the arbitrary ceiling.\textsuperscript{238} Based on its national tendencies since WW II, Japan is unlikely to radically increase its per capita spending on defense.

By its restrictive import policies, Japan has demonstrated that it does not feel compelled to apply the same rules to itself as to others. Whereas it severely restricts imports, it expects other nations to be unrestricted toward its exports. Similarly, its national abhorrence of war (and nuclear warfare in particular) has generated a national

\textsuperscript{237}Economist, 17 January 1987, p. 40.
\textsuperscript{238}Christian Science Monitor, 26 January 1987, p. 13.
unwillingness toward increasing Japanese defense expenditures, while expecting the United States to provide for defense of Japan's sovereignty and economic prowess.

Japan maintains conventional national Self-Defense Forces (SDF). The SDF is limited to 180,000 soldiers, 60 anti-submarine warships, and 430 combat aircraft. These forces represent 86% of the manpower permitted, but the direction of conventional force improvements leans more toward better training and improved logistics than toward more equipment.

The defense review published by the Japanese government in August 1987 declared that Japan's SDF would be incapable of repulsing even a limited and small scale invasion--giving a worst-case defeat time-frame as two days. To encourage the continued protection of the United States, Japan has agreed to an increased strategic role in the region. That role is naval-oriented.

Japan's strategic location, as the eastern border of the Sea of Japan, gives it a logical part in containment of the Soviet Pacific Fleet. By merely controlling the waters around its sovereign territory, Japan limits the usage of the Tsushima and Soya Straits (at the southern and northern ends of the Sea of Japan) and the Tsugaru Strait (between Honshu and Hokkaido). Simply mining these straits would create a severe bottleneck for Soviet naval forces attempting to deploy from Vladivostok out of the Sea of Japan.

Japan has promised to take on responsibility for keeping open sea lines of communication (SLOC) up to 1,000 nautical miles away from Japan, extending its military reach south of the Philippines. The Japanese are both quantitatively and qualitatively improving their naval forces toward this objective, but will not meet the targets until the 1990's.

Japan's reaction to its loss in WW II is exemplified by its nuclear policy. A key platform of Japan's defense policy is built on the "three non-nuclear principles":

1. Not to acquire nuclear weapons.
2. Not to produce nuclear weapons.
3. Not to introduce nuclear munitions into Japan.

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240 Ibid.
The first two principles, non-possession and non-production of nuclear weapons, are now actually part of international law via the Non-Proliferation Treaty (NPT). The third principle--not to introduce nuclear weapons--has caused some controversy in Japan. The problem will be addressed below in the "United States-Japan" section. The principal point of the matter is that Japan does, and will probably continue to, depend on American nuclear weapons as a deterrent against Soviet nuclear weapons and conventional forces.

C. UNITED STATES-JAPAN

Despite Soviet protestations about Japan’s increasing "militarization", Japan has contributed relatively little to its own defense, relying instead on the protection of the United States. Japan has offered to provide funds toward sharing the "Western" burden of building global interdependence. Its willingness to share the financial burden, but not the "stigma" (in terms of the global peace movement) of a military power, has sparked various reactions in the United States. The viewpoints range from pragmatic gratitude over Japan’s recognition of its "indebtedness" to the U.S., to smug condemnation of Japan’s unwillingness to become a significant military power.

Given the political culture of Japan and its recent historical experience in WW II, Japan’s readiness to assist the Western cause by financial outlays seems an appropriate response to the current status of the Alliance. The United States is in deep financial trouble, partly due to the fiscal requirements of maintaining its military role as the Western superpower. Powerful historical and cultural forces are active both within Japan and among its neighbors which inhibit the Japanese government from expanding militarily. Rather than condemning the Japanese, Americans would be wise to capitalize on the offers which are forthcoming from Japan--offers which are consistent with its national will.

Many Americans react to Japanese "pacifism" emotionally, rather than in context of divergent pasts. The American perspective, that Japan is not contributing fairly, is understandable, but rather short-sighted. The U.S. does not want to be stereo-typed as the military "bad guy". Japanese offers to extend economic aid to third world countries would allow the U.S. to utilize some of its funds, previously ear-marked for aid, for its defense budget. Such an arrangement would indeed relieve pressure on the United States’ budget, but self-conscious Americans might resent categorization by the world

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as "aggressive capitalists" while Japan would enjoy laurels as a great contributor to world peace and globalism.

The perspective that all Western nations should shoulder the military burden equally has provoked some very insulting responses toward the Japanese. The Japanese, in turn, are reacting to American and European economic, political, and military Japan-bashing by increasingly vocal anti-Americanism, alienation from the West, and Japanese nationalism—provoked by Japan’s democratic media.

Much of the military-oriented Japan-bashing focuses on its failure to equally share the defense burden or to directly compensate the United States for the cost of Pacific security. The argument declares that Japan uses its former image as the "yellow peril" to dodge military responsibility—and expenditures. A volatile implication is that the Japanese imperialistic “Greater East Asia Co-Prosperity Sphere” policies of the 1930s and 1940s, designed to harness East Asia for Japan’s benefit, is being continued (and even expanded world-wide)...now through economic rather than military means.

Japan’s concept of “comprehensive security” bases responsibility for contribution to the Alliance’s security on comparative advantage. Since it views its own advantage as economic prowess, Japan wishes to contribute by aid to foreign countries of strategic importance. Opponents contend that Japan should pay the United States for its military protection. In that way, the U.S. can then pass the money on to needy countries and get “credit” for its benevolence.

The major flaw of such an arrangement is that it makes Japan a client, not a partner, of the United States. Scholars and governmental officials apply the same rhetoric to the USSR and its “clients” disparagingly. If the U.S. and Japan really are members of an alliance, each must be willing to make concessions to the life-style, culture, and political process of the other.

The Japanese have agreed to funnel third world contributions through world organizations. Even if the U.S. does not get the credit, critics should be pleased that Japan will not either. The Japanese have also agreed, in response to U.S. pressures, to assume greater responsibility for its own defense, by becoming responsible for two 1,000-mile sea lines of communication in the Pacific Ocean. Although the actual

243 Krauss, “Japan: King of the Free Riders,” How NATO Weakens the West, 1986, pp. 157-80. His chapter is representative of the arguments, antagonistic to Japan, which insist that the Japanese must see the world through American eyes.

244 Economist, 16 August 1986, p. 22.
capability will not be effective until the 1990s, Japan’s agreement to extend its responsibility is evidence of its commitment to the Alliance, and its willingness to compromise. The Japanese also allow the U.S. Navy to use its ports in the face of Soviet threats, providing the United States with important facilities for power projection in the region.

The significance of unchecked American naval access to Japan is that nuclear-armed warships could potentially violate the third non-nuclear principle of Japan’s domestic policy. In 1985 the problem received increased attention when New Zealand refused the U.S. Navy access to its ports by either nuclear-armed or nuclear-powered vessels. New Zealand’s policy in effect required the United States to disclose which of its ships were nuclear-armed. The U.S. policy is non-disclosure, and since all its ships are potentially nuclear-capable, New Zealand’s policy effectively closed its ports to the United States Navy. The U.S. reaction to New Zealand’s decision was to suspend most of the operations of the Australia-New Zealand-United States (ANZUS) treaty which applied to New Zealand.

This example has encouraged Japan to closely examine the consequences of declared policy on nuclear weapons. Japan’s well-being is closely intertwined with the United States in economic, political, and military realms. The potential effects of intergovernmental linkage to the non-nuclear policy are serious for both nations.

In April 1987 members of the Japanese Communist Party, visiting the United States, found documentary evidence of Japanese agreement to the “introduction” of U.S. nuclear weapons into Japan. The JCP members, searching in the Library of Congress, found a telegram to the American Embassy in Japan, signed by Secretary of State Dean Rusk (1966), which indicated official Japanese acceptance of “ambiguity” toward the question. By not asking whether U.S. ships are nuclear-armed, the government tacitly allows them into its ports.

More explicitly, the telegram referred to a top-secret agreement which was appended to the 1960 United States-Japan Mutual Security Treaty. The “transit agreement”, referenced in a national security study memorandum in 1969,


provides that American warships and warplanes may carry nuclear arms into and out of Japan but may not store them in Japan or launch them from there.\textsuperscript{247}

The 1966 telegram from Secretary of State Rusk instructed that the

"Government of Japan should also be reminded that confidential 1960 agreement affords the U.S. right to seek consent to introduction of nuclear weapons into Japan.\textsuperscript{248}

Whether the referenced top-secret agreement in the Mutual Security Treaty violates the popular Japanese non-nuclear sentiments is yet to be decided. The intent of the policy is clearly that nuclear weapons will not be based, stored, or fired from Japanese territory. Despite Soviet allegations to the contrary,\textsuperscript{249} there is no evidence that the intent has been violated.

Japan appears to be willing to accept the USSR’s threats as an acceptable consequence of the security it receives from the United States. In a commendable acceptance of compromise, Japan will increase its role in regional security and relieve some of the U.S. burden of “Western” aid. Hopefully, American haughtiness will be transformed into a pragmatic respect for Japan’s aversion to militarism and its willingness to share the “burden” via alternative means. At the same time, Americans may confidently accept the U.S.’ role as the power most capable of representing Western military strength globally.

D. IMPACT ON TRADE/POLITICS

To some degree, the Japanese can be expected to continue dealing with the USSR in economic terms despite political and military tensions. Good economic relations may develop a new conditioned response, replacing the Soviet perception that military strength is its most effective diplomatic tool. Currently, the USSR fears the economic life-blood of Japan, and its potential for congealing an anti-Soviet alliance.

The USSR probably overrates Japan’s potential to rapidly develop into a military power itself, or to use its economic leverage to unify the region against the Soviet Union. The other regional nations are also wary of a renewed Japanese imperialism. China and ASEAN undoubtedly would be among the first to act against “dangerous” Japanese militarism.

\textsuperscript{247}Ibid.
\textsuperscript{248}Ibid.
The established pattern seems likely to continue. The USSR will bluster about increasing threats to its security, it will threaten its neighbors, and they will be leery of conducting increased trade with the apparently paranoid, unstable Soviet Union. The U.S. security "guarantee" enables Japanese businessmen to take legal economic risks without violating government security policy. Greater private Japanese trade, without official vulnerability, is likely to aid the growth of friendly Soviet-Japanese relations.

But the Soviet fixation on security-consciousness keeps relations strained. As noted earlier, the Soviet Union has expressed concern about the increasing militarism of Japan. For strategic security, the USSR has located a tangible military threat on the disputed islands.

As part of the Soviets' 1985 campaign to threaten Japan into a withdrawal of support from the United States, the Soviet press built up the issue of the U.S. F-16's at Misawa. The USSR accused Japan of supporting the U.S. in its buildup of offensive capabilities there. Accusations included:

- Basing of "nuclear-capable" F-16's;
- Permitting existence of an "underground nuclear arsenal";
- Providing a command post for directing nuclear, chemical and bacteriological warfare against the Northwest Pacific.

The implicit threat was clarified by citing that it would be naive to believe that the states to which the systems threaten will not take counter-measures to neutralize the new danger emanating from Japanese territory.250

In other words, if it continues to host U.S. forces, Japan faces Soviet nuclear strikes. This threat was declared despite Soviet acknowledgement that the forces are managed by Washington, not by Tokyo.

Soviet troops are stationed on Kunashiri. Only seventeen kilometers separate Kunashiri from Hokkaido. Although this presence is superficially a deterrent, the psychological effect has been to drive the Japanese closer to the United States and further from a rapprochement with the USSR.

The Iraqi attack on the Stark in the Persian Gulf reminded Americans as well as its allies of the importance of U.S. power projection. Although it was not a secret, Japan's dependence on the Persian Gulf region for over 50% of its oil imports became a highly publicized fact. U.S.-Japan trade frictions assumed new proportions of

250 Ibid.
intolerance as Americans stormed over Japanese unwillingness to "play fairly". Neither Japan nor the Federal Republic of Germany is constitutionally allowed to project forces distant from its borders--e.g. to the Persian Gulf.

The point is well taken that the United States has assumed a critical role for Japan's continued prosperity. Prime Minister Nakasone re-emphasized Japan's willingness to provide alternative contributions. Members of the U.S. Congress took the opportunity to remind Americans of Japan's restrictions to free trade. Nakasone responded by outlining the incremental changes which Japan has undertaken in compromise.

In summary, the trend in Soviet military projection is superficially paradoxical. Political rhetoric emphasizes the Kremlin's desire for peace, arms control: reduction, and peaceful coexistence. Reality indicates sustained emphasis on gaining advantage in the correlation of forces with the West. In Soviet thinking, the use of misleading rhetoric is not "lying", but part of the strategic deception ("maskirovka") plan.

The effect of the peace offensive on trade is to make economic cooperation seem more likely. Under the circumstances, an increased economic relationship appears promising for Japan from two viewpoints:

1. Business envisions profits and sustained growth.
2. Government aspires to create a bilateral atmosphere predominated by mutually beneficial trade rather than mutually threatening military power.

In the end, Japanese trade could help the USSR to overcome its nationality problem in the conventional forces. This assistance would be in the form of reduced reliance on manpower through military applications of robotics, cybernetics and fifth generation (artificial intelligence) developments, and improved C$^3$ capabilities.

The Kremlin denounces Japan's growing militarism, not because of current capabilities but to discourage it from developing its potential. Soviet threats also aim to inhibit Japan from increasing its reliance on the United States.

Japan's national will supports the Kremlin's desire for minimal Japanese militarism, but Moscow's threats tend to remind the Japanese of Tokyo's reliance on Washington. During this period of American-Japanese trade frictions, Soviet threats help to maintain the bond between the United States and Japan for the mutual security which the relationship provides.

Cessation of threats against Japan would greatly enhance the USSR's aspirations for trade, partly by reducing Japan's feeling of dependency on the United States. An
offered concession on the Northern Territories (such as Shikotan and the Habomais for a peace treaty) would increase Japanese trust in the USSR’s motives without significantly altering the USSR’s strategic plans. Whether the Japanese government accepted such an offer or not, the offer would probably have a greater positive impact on bilateral relations than any potential reaction caused by “reopening” the territorial issue.
VI. SOCIO-PSYCHOLOGICAL

Socio-psychological aspects of Soviet-Japanese trade relations include ideological and cultural perspectives. To accurately investigate relations between the two nations, one must make assumptions about each nation's cultural perspective of life. This assessment is necessary to properly evaluate national decision-making. Both the Japanese and Soviet cultures can be considered to be "high context" in that their societies are oriented toward a group consciousness, rather than toward a focus on the individual.

However, Japan is primarily comprised of one culture, whereas the Soviet Union is comprised of over one hundred nationalities of divergent cultures; the Soviet masses are controlled by the Slavic Russian rulers. In this regard, it is important to understand that the leaders of the Communist Party of the Soviet Union (CPSU)--the decision-makers--intend to maintain the dominance of ethnic Russians in the position of power. Consequently, the Russian culture predominates for the Soviet Union in the context of bilateral national relations.

The Japanese would like to establish a harmonious world, regardless of cultural and political differences. Although the Soviets would also like to achieve a stable world, the Russians' siege mentality will be eradicated only after the "inevitable victory of socialism". The affect of the Russian xenophobia (both culturally and politically) was evident in the discussion of Soviet nationalities and the Far East military buildup.

A. USSR

Ideologically, the Soviet Union ascribes to Marxism-Leninism. Marx's theory focuses on economics as the instigator of historical change. Consequently, the USSR is determined to create the economic conditions necessary for the success of socialism.

Contrary to the projections of Marx’s "dialectical materialism", the Soviet Union currently is showing its greatest economic strength in natural resources (as evidenced


by raw materials' preponderant share of exports).\textsuperscript{254} Most of the USSR’s quality finished products must be imported from the West, and the West is not interested in buying the USSR’s finished products.\textsuperscript{255} From an ideological standpoint, then, the Soviet Union needs to “correct” its status within the world economic community.

Soviet cultural identity is being stressed because of demographic developments. The Slavic nationalities, and especially the ruling Russians, have been experiencing a decline in population growth while Central Asian minority nationalities have been growing relatively rapidly. Attempts to “Russify” the minority nationalities throughout the USSR have been unsuccessful. The significance of the problem for the ruling Soviets in economic and political applications revolves around their desire for control.

As the ruling and majority ethnic group, the political culture of the Russians largely determines the effect of socio-psychological considerations on the Soviet economy. There are six basic mind-sets which largely determine the standard behavior of Russians:

1. **Consensus.**\textsuperscript{256} All Russians support the “Party line”. Rather than a Western “democratic” concept whereby the majority rules and dissenters continue to dissent, the norm in the USSR is to arrive at a consensus. Russians are more willing to give up details of disagreement to arrive at a sense of unity. A common goal is comforting in terms of mutual support. The oligarchic nature of the Politburo is based on this principle of consensus. As an expression of this consensus, the Politburo presents a “unanimous” front to the outside via a charismatic representative—the CPSU General Secretary.

2. **Secretiveness.**\textsuperscript{257} Russians exhibit a conspiratorial nature. Although they may have disagreements internally, a common front is displayed to outsiders. Foreigners are distrusted and feared as they threaten the accepted integrity and continuity of the consensus-system. For this reason, Russians are wary of allowing foreigners to observe activities within Russia, and tightly control the movement and contacts of foreigners who are allowed in. Traditional Russians do not “take their garbage out of the hut” for outsiders to see. Outsiders need only to see a well-organized, tightly-knit facade.

\begin{itemize}
\item \textsuperscript{256} Keenan, “Muscovite Political Folkways,” pp. 128, 142-143, 156-158, 168-171.
\item \textsuperscript{257} Ibid., pp. 119-120, 158, 168.
\end{itemize}
3. Deception.\textsuperscript{258} To maintain the facade, intricate and highly-developed systems of deception: camouflage ("maskirovka") are established. Elaborate deceptions are designed to manipulate outsiders into furthering the Soviet Union's goals. This deception is not considered "lying" as it promotes the higher good of the group. A well-known manifestation of the deception principle is the "high-road, low-road" Russian approach to international affairs. While the Soviet government works through official "high-road" channels to achieve its purposes, the "low-road" is functioning through subversive means (e.g. espionage and theft of technology) to meet its objectives.

4. Control.\textsuperscript{259} Centralized control ensures that detailed planning is properly coordinated and executed. By not allowing departures from the norm, the Russian conspiratorial nature is preserved and survival of the system is insured. Conflicting political power bases are not allowed. Control is maintained by elimination of anyone who attempts to build a rival camp against the existing consensus. Thus, when a new leader is chosen in the Politburo, the West observes a gradual change in high positions which it terms "building a power base". In reality, this process is the realignment of consensus.

5. Survival.\textsuperscript{260} Survival is fundamental to Russian thought. The other five mind-sets mentioned here are predicated on this Russian absolute. The concept evolved from the harsh geographic/climatic conditions in Russia--a person's first task was to stay alive. Out of this necessity grew a tendency toward risk avoidance--if a new/different concept arises, one is wiser to adhere to the established mode than to risk destruction or a "step backward". Consequently, there is a strong will to hang on to what one already has (as evidenced in popular resistance to Gorbachev's reforms).

6. Man is evil.\textsuperscript{261} Russian xenophobia is well-developed. The fear of outsiders has been established by repeated invasions of Russia. But even beyond the understandable paranoia generated by history, Russians also perceive that all men, including Russians, are inherently evil. Thus, control, consensus, secretiveness, and survival combine to protect the group from the weakness of individuals. In other words, don't trust anyone outside the village, and be wary of those within!

Ideologically, man is perfectable. Otherwise, there is no hope of attaining the state of communism where all men contribute unselfishly for the good of all. The "New Soviet Man", as opposed to the real, existent man, must work to avoid alienation from the perfect plan. A man realizes his "nature" in his work--his existence is in his production.

\textsuperscript{258} Ibid., pp. 145-148.
\textsuperscript{259} Ibid., pp. 130-132, 138, 157, 168.
\textsuperscript{260} Ibid., pp. 125-126, 158, 168-169.
\textsuperscript{261} Ibid., pp. 126-127, 162-163.
While the number of ethnic Russians is decreasing, the requirements for filling "vital" positions are increasing. To maintain Nomenklatura control, Slavs need to retain leadership in military, government, industry, and agriculture positions.

With the need to expand the economy, the Soviet nationality dilemma has arrived. Increasing emphasis is being put on development of Asia. Unless some measures are taken to overcome the increasing requirements for non-Slavic labor, the predominantly Slavic Party must face dilution of its power by the national minorities.

A pragmatic approach to the problem is to reduce the labor demand to meet the available number of Russians. In the military this can be done, as previously mentioned, by greater reliance on nuclear forces which are much less labor-intensive than conventional forces. In industry, agriculture, and even in military conventional forces, greater reliance on modern equipment to replace workers and soldiers would at least partially decrease the control problems facing the diminishing ethnic Russian population. Although the Russians are making advances in this area independently, the transfer of robotics, cybernetics, and fifth-generation technology from Japan, the world leader\textsuperscript{262} in automation, could significantly reduce the immediacy of the Soviet nationality problem.

Secretary Gorbachev has also shown intense interest in the Japanese ability to motivate workers. He would like to infuse Japan's managerial techniques into Soviet industry. Successful implementation of Japanese techniques would undoubtedly produce the increased effectiveness and productivity of workers--another partial solution to the USSR's labor shortage.

B. JAPAN

Cultural characteristics and attributes embodied in Japanese business sense are sometimes misinterpreted as insidious and calculated schemes by Japanese businessmen or government. In the United States, the misunderstanding leads to accusations of Japanese unfairness in trade policy. In the Soviet Union, successful Japanese practices create a sense of awe, strangely coupled with traditional Russian paranoia. But due to the Japanese record of success, the USSR is very interested in adapting Japanese managerial practices to its own economic system.

\textsuperscript{262}Staff Report, "Pushing the State of the Art", \textit{Datamation}, 1 October 1985, pp. 68-72.
In relations with the U.S., the Japanese have earned some of the charges of unfairness by continuance of trade barriers which have outlived their initial purpose—helping "infant industries" to become established. However, economic Japan-bashing is too often a reaction against legitimate Japanese successes. Disgruntled businessmen would do better to learn from the Japanese culture how to succeed than to scatter blame for their own lagging competitiveness.

Some cultures are better suited to certain activities (e.g. research, development, and production) than others. Japanese culture is suited to:

- Close coordination of available information.
- Coordinated planning and execution of multi-faceted production undertakings.
- Attention to detail.
- Ability to organize the distribution of collective gains as rewards and incentives to individuals.  

The behavioral patterns which influence Japanese business and employees are a reflection of six socio-psychological factors within Japanese society:

1. Japan is a vertical society where a person’s relative ranking among his associates is critical. Japanese are most psychologically comfortable when their position in the vertical ranking is well-established.

2. A Japanese business interacts with its employees by the social characteristic called paternalism or familyism. The employer often fosters employee dedication by providing welfare programs, providing company housing, and holding pre-work motivation sessions. In Japan, the lifetime employment system, still the norm of the cultural contract, represents the ultimate form of paternalism.

3. The first two factors (seniority and membership in the company "house") combine to create the third principle, men over organization. In the traditions of Japan, employees matter above all else. Workers do their best because they understand that they are not being exploited, but have a real share in the fruits of their labor as members of the "house".

4. Decision-making, mentioned as applicable to bureaucracy in the "Political" chapter, is based on consensus-building. Any change in routine, tactics, or strategy of a business originates at the level which will be directly affected. A proposed change must meet consensus at every echelon before it reaches the executive level. This system controls the pressure on individual subordinates to concede to poor ideas from powerful superiors out of fear of individual repercussions. This method of decision-making is obviously very time-consuming, and is being complemented by some time-critical Western concepts for long-range planning.

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5. Japanese fascination with detail and subtle distinctions (as evidenced in its traditional art) has made them very capable in developing nuances of production, in determining and isolating faults, and in fine-tuning production lines. This attention to detail has provided the foundation for the quality control which has put Japanese products in high demand.

6. Japan is a homogeneous and cohesive society whose common basic values, ethnic origin, and language enable ready understanding and facilitate communication among its members.\(^{264}\)

As in all societies, Japan's historical culture is evolving, integrating more of the features of the various cultures which it encounters globally. But these principle features still make up the framework of both Japanese society and business associations.

C. JAPANESE GLOBAL, "CULTURAL" EXPANSION

Some Japanese have allowed a strong business sense to pragmatically circumvent tradition from the perspective of progress. As alluded to earlier, the slow progress of consensus-building has had to be complemented in some levels of decision-making by "top-down" management, because of the high-speed nature of modern global business.

Tadashi Kume, president of Honda, flouts the Japanese convention of vertical relationships, whereby a junior does not individually question his superior's judgement. Mr. Kume contends that he rose to his present position by rebelling against Mr. Honda, and that there will be no progress if his subordinates fail to do likewise.\(^{265}\) The Honda company, although using a management style which discourages the traditional hierarchy, has extended the concept of communication and understanding to integrate input from personnel in research, development, and manufacture at each stage of production. The company feels, for example, that an assembly line worker may offer fresh or pragmatic insight into the design of a vehicle. The result is more efficient production through communication at all levels, from design to sales.

Attention to detail pays off in design of such items as automobiles where similar products are differentiated by variety within basic components and optional equipment. Detail is crucial to quality control, a long-term determinant of customer satisfaction and positive brand-name recognition.


To expand from economy cars into sales aimed at the affluent, Honda is relying
on the reputation for quality it has earned, and on attention to detail in engineering.
Customer satisfaction with product details and with service are hoped to establish
Honda's Acura and Sterling models among BMW- and Mercedes-class buyers.\textsuperscript{266}

Honda's component and automobile plants in Ohio have felt the affect of
Japanese culture. By seeking the assistance of workers at improving product quality
and by eliminating executive perquisites, plant "associates" (assembly workers) have
raised the quality of domestically-built Hondas to equal that of imports from Japan.\textsuperscript{267}

More than 350 Japanese auto parts companies have opened plants in the United
States.\textsuperscript{268} The specter of losing the auto parts trade to Japan has U.S. manufacturers
worried. While Ford is the only company now buying parts from Japanese plants in
the U.S., G.M. and Chrysler plan to begin. Chrysler's vice president of procurement
said, "Quality, cost, and delivery speed are the real issues, not nationality."\textsuperscript{269} His
comment referred to American protectionists who tend to blame "Japan, Inc." for their
problems rather than non-competitiveness of U.S. companies. Many American
suppliers are dealing with the Japanese competition by adopting Japanese practices in
their own manufacturing procedures, or by joining forces in joint American-Japanese
ventures.\textsuperscript{270}

A purely Japanese joint venture by Kawasaki and Nissho Iwai financed a plant
in Yonkers, New York, to build subway cars for New York and New Jersey. A
comment about the operation, by a professor of production management at the
Columbia University Business School, was typical of the impression created by
Japanese businesses. "The Japanese move in with their engineers, their attention to
detail and a strong emphasis on quality. Before you know it, they've got a market
sewn up."\textsuperscript{271}

\textsuperscript{266}John Holusha, "Honda: In U.S., New Cars Court the Affluent," \textit{New York
\textsuperscript{267}Ibid.
\textsuperscript{268}Louise Uchitelle, "Japanese Funds Still Pour In," \textit{New York Times}, 7 April
1987, p. 33.
\textsuperscript{269}Louis Uchitelle, "Japan Winning in Auto Parts," \textit{New York Times}, 1 May
1987, pp. 25, 28.
\textsuperscript{270}Ibid.
Due to the rising value of the Yen, there is increasing financial pressure not to renew contracts with Japanese firms. Although this development is good news to American protectionists, the American firms who have established trade with Japanese companies are not necessarily pleased. Noting that Japan is no longer a prudent financial choice for cost advantage, other factors of Japanese trade have helped them to maintain current relationships. One such factor is a reputation for dependability as a supplier. To meet production schedules, firms depend on timely delivery of quality supplies, and the promise of product service--areas in which the Japanese are noted for excellence.

Japanese firms have expanded to a variety of globally diverse cultures, bringing with them the most effective industrial methods derived from Japan's culture. Although recognizing that some of the methods are unusual, workers in Mexico, Canada, England, West Germany, and the United States merely perceive these as innovative (and successful) techniques--not as cultural imperialism.

Fifty Japanese companies have set up factories in Britain, about the same number as those in West Germany. Among them are Sony, Hitachi, Ricoh, Sumitomo, and Nissan—all eager to avoid European protectionism by producing in Europe.

The Nissan auto plant in Sunderland represents the Japanese consensus-building style of industrialized operations. The Japanese style has helped to break down Britain's class-based industrial enmities. All employees wear company uniforms, and cafeterias are shared by factory workers and top executives. There is no time clock, as the company trusts employees to show up. Every worker is responsible for quality control. The workers are impressed with the sense of "team effort" which has been generated.

Foremen receive pay equivalent to design and manufacturing engineers. Normally in Britain, they receive roughly 15% less. Small ideas from workers have been incorporated into production lines, accumulating into big manufacturing benefits. Signs extolling teamwork, improvement, and quality are prominently visible. Line workers are referred to as "manufacturing staff", or "assembly technicians"--a psychological promoter of pride.

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The seeds of familyism have been introduced into the British plants, as well. In Japan, familyism ensures that an employee will not be laid off if a firm modernizes through technological upgrading. Instead, he is trained for a different job and his "membership" in the firm is reinforced—psychologically his loyalty is reaffirmed. Additionally, the more successful a firm is, the larger wages and bonuses its employees receive. Japanese employees feel tremendous pride in working for a successful and prosperous firm because they can feel a sense of identity with the firm’s accomplishments.

An example of Japanese workers’ identity with the growth of their company, alien to most American workers, is that the Japanese Ministry of Labor has felt obliged to exhort employees to take all the paid vacations to which they are entitled—in 1978 only 50% of work:: ‘id so. Since an employee is likely to work with the same personnel throughout his life, the concept of teamwork is strengthened by a real community stake in production. Common goals are incentive to work at full capacity.

The Japanese efforts at creating familyism have yielded positive results at the Sunderland plant. Production has steadily increased to 130 cars per day. The quality of cars is equal to Nissan’s Japanese-made models, and efficiency has yielded a cost S600 less than its British rivals.

Fifteen Japanese companies have established maquiladoras (assembly plants) in Mexico. The assembly plants allow foreign-owned factories to import components to Mexico duty-free, assemble them in Mexico using cheap local labor, and export the finished product. The finished product often is exported to the United States, which charges only a tax on the value added to the product by its assembly. Obviously, this system provides a convenient means for penetrating the American market without causing a trade conflict.

This use of maquiladoras applies to the present discussion regarding the Japanese concern for men over organization. The manager for a Sanyo television plant said that the difference between the Japanese and other nationalities was evident by the relative emphasis on rules versus human relations.

"Americans give an 80 percent weight to the rules and are 20 percent human-oriented, while Mexicans give an 80 percent value to human relations and 20

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275 Ibid., p. 37.
percent to following the rules. The Japanese, on the other hand, are 80 percent human-oriented and 80 percent oriented to the rules.\textsuperscript{276}

His opinion, although not mathematically perfect, is understood. The affect of the Japanese attitude was reflected in the stability of the workforce in the Japanese \textit{maquiladoras}. While some assembly plants experience a turnover rate as high as 15\% per month, the Sanyo plant, as an example, suffered only a 1.8\% turnover in April 1987 (the month prior to the source article).

D. JAPANESE-SOVET "CULTURAL" COMPATABILITY

The CPSU’s desire to acquire Japanese production managerial techniques may be frustrated even if the Japanese are willing to share their ideas and methods. Basic cultural differences preclude the ready input of the Japanese round peg into the Soviet square hole. Either the input or the receptacle will require substantial modification to allow implementation of the proven Japanese managerial techniques.

The \textit{cultural contract} of the group is probably the most important of the factors described. Although Japan does experience strikes, dismissals, and bankruptcies, most employees can trust that their employer will lay them off only as a last resort. This mutual commitment between employer and employee will be difficult to reproduce in the USSR.

The USSR’s “social contract” provides heavily subsidized food and shelter, but workers have not regularly received the fruits of their labors. The trust between employer and employee in Japan is not generally present in the USSR. Part of the reason can be surmised from the top-down, centralized decision-making process of the USSR compared to the \textit{consensus-building}, bottom-up decision process traditional in Japan.

The CPSU’s latest drive toward achieving the benefits of socialism for workers is representative of the possible compatibility of that effort with the Japanese concept of \textit{men over organization}. In the Draft Law on State Enterprises, the emphasis on use of profits for upgrading housing, educational facilities, and social programs for workers (as a “benefit” of their part in a successful enterprise) is parallel to the concept of the Japanese system. If the Soviets manage to actually put the workers’ welfare ahead of the enterprise’s output, the system may work as well as Japan’s. The detractor will be, however, that in the Soviet case worker benefits normally follow the success of the

enterprise. In contrast, the loyalties of traditional Japanese employers lies first with their employees, then with the stockholders.

In Japan, the principles of this socio-psychological relationship within individual firms extends to cooperation among firms. The aforementioned attributes, specifically that of pride in working for a successful firm, encourage cooperation and coordination of multiple firms into *keiretsu* groups.\(^{277}\) These groups are comprised of a variety of firms, interrelated to maximize utilization of resources. For example, each *keiretsu* usually has a large bank and a general trading company as its foundation, and major chemical, energy, machinery, and heavy industries as participants. (Mitsui, Mitsubishi, and Fuji are well-known *keiretsu* groups.) Cooperation among members enables:

- Sharing of resources;
- "Loaning" of managers, technical, and blue-collar workers among companies;
- Joint purchases of raw materials;
- The sharing of investment in raw materials development;
- Joint training of employees;
- Exchanges of information on new technologies.

All these conglomerate-type activities have clear economic benefits. The most obvious benefits are increased overall efficiency, economies of scale, and experiential advantages.

The Soviet Draft Law on State Enterprises also encourages this type of inter-enterprise cooperation. However, the USSR's centralized planning foundation, the general resistance to change caused by fear of new ideas, and opposition by the entrenched bureaucracy will make implementation of these concepts much more difficult than merely getting them printed on paper.

In summary, although the USSR is trying to adapt these principles to its economy, fundamental socio-psychological differences between the Soviet Union and Japan make direct transfer improbable. Nonetheless, within its centralized framework, and considering its strong impulse for control, the USSR has already made progress in adapting the Japanese techniques to its own system. However, overcoming the traditional attitudes of the Soviet workers will be more difficult than merely espousing rational solutions to inefficiency and low productivity.

\(^{277}\) Yamamura Kozo, "Behind the 'Made in Japan' Label," pp. 137-140.
Statistical data on the Soviet economy are, generally speaking, incomplete and imperfect. Various study centers compile available statistics and make best-guess judgements as to the status of the Soviet economy. Consequently, the specific impact of Western technology on the USSR cannot be empirically validated.\(^{278}\)

Nonetheless, one can assume that Western technology acquisitions are both desirable and beneficial to the USSR. Soviet dedication to acquiring Western modernized goods, methods, and know-how demonstrates their importance to the USSR. A few case studies illustrating Soviet efforts, accomplishments, and failures in developing trade and technology transfer with Japan will help to tie together the economic, political, military, and psycho-social aspects of the question.

A. CASE STUDY OF FAILURE

The proximity of Japan and the USSR suggests the reasonable inclination for the two to trade. Japan imports 100% of its oil, and the USSR is the world's largest individual producer of oil.\(^{279}\) As mentioned previously, the Japanese have hesitated to become vulnerable to reliance on Soviet oil due to Soviet military power projection and the conspiratorial political nature of its leadership.

The Soviet Union, to maintain its current petroleum source of hard-currency, needs to develop the reserves which reportedly exist in Siberia and the Far East. However, the USSR trails the West in drilling and transport technology, so it has been desirous of economic deals with Japan, hoping to trade petroleum for advanced extraction and transport equipment.

Soviet and Japanese proposals for joint development of Tyumen oil were negotiated under terms whereby Japan would provide credit and certain products to facilitate Siberian development of the natural resources. In return, Japan would receive output from the resources which were successfully harnessed. Certain events over the 12-year period of discussions (1962-74) highlighted the disincentives which eventually defeated the negotiations.

\(^{278}\)Bronstein, Technology Transfer, p. 17.

\(^{279}\)Braden, "Anatomy of Failure: Japan-U.S.S.R Negotiations on Siberian Oil Development," p. 75. Unless noted otherwise, the primary facts for this case study are taken from the Braden article, pp. 74-105.
The USSR was initially interested in exporting its natural resources to obtain industrial material from Japan. As a fundamental mind-set of the Cold War at that time, the United States was not pleased with Japan’s desire to trade with Communist countries. Japan understood its need for trade with the USSR (and China) as important for survival.

De-intensification of U.S.-USSR tensions (during the intensified Sino-Soviet friction) made Japanese prospects for trade with the Soviets appear more promising. In September 1965, the Japan-Soviet Joint Economic Cooperation Committee (JSJECC) was formed. In 1966, the Soviet and Japanese Foreign Ministers exchanged visits.

At the 1966 JSJECC meeting in Tokyo, the Soviets proposed an oil pipeline from the Tyumen oil fields (in Western Siberia) to Nakhodka. The original proposal, which drew great Japanese interest and expectation, estimated a cost of $2 billion for the 7,700-kilometer pipeline, with annual payments of oil to range from 25-40 million tons.

An incident involving negotiations for a joint natural gas venture affected expectations for the oil venture. After mid-1967, a Japanese trading company, Marubeni-lida, opted for a 20-year contract for natural gas from Brunei instead of pursuing a Siberian proposal. The Soviets had felt that their negotiations with Marubeni-lida were nearing an initialed agreement, and were angered at the company’s pull-out. This trade confrontation, coupled with reiterated Japanese emphasis on the Northern Territories issue, caused the USSR to protest about the insincerity of Japan concerning real desire for Siberian development cooperation. The storm further highlighted political considerations by causing Japanese reflection on the advisability of becoming dependent on vital resources from a recognized adversary.

In 1971, the Soviets indefinitely postponed the next JSJECC meeting due to a deadlock between the Soviets, who demanded long-term, low-interest credit, and the Japanese government who refused to back the commercial banks issuance of “soft loans” to the USSR. “Soft loans”, by government policy, were available only to Less Developed Countries (LDCs).

Then, after the U.S. signalled its forthcoming rapprochement with the PRC, the USSR began to display a softening attitude toward Japan. The JCP chairman even reported, in September 1971, that Brezhnev had told him that the USSR was earnestly studying the possibility of returning the Northern Territories to Japan. If so, Brezhnev’s motives were likely a combination of political (preventing a Japan-PRC-
U.S. entente) and economic (enlisting Japanese aid in Siberian development) considerations.

Since by 1972 the Soviets had already completed 3400 kilometers of the oil pipeline, at the rescheduled JSJECC talks in February 1972 the USSR asked for Japanese assistance in completing the 4,400 kilometers remaining, from Irkutsk to Nakhodka. The Soviets wanted $1 billion credit in return for oil payments of 25 to 40 million tons annually over twenty years. But the two sides could not agree on the interest rate of the credit. The USSR wanted 6%, and the Japanese best offer was only 6.5%.

But the Japanese leaders were still interested in the project. In January 1973, Prime Minister Tanaka broke with standards of the past and conceded that economic issues could be considered separately from political ones—that the Tyumen oil project was not inextricably linked to the Northern Territories issue. Tanaka's announcement met strong opposition in Japan, but he stood his ground. Meanwhile, inexplicably, the Soviets delayed the next round of JSJECC talks until 1974. Extra time may have been needed to reach a consensus on new strategy toward Japan in light of Tanaka's altered policy position. The new position seemingly made Japan more maneuverable toward Soviet objectives.

When the directors finally met in August 1974, the Soviets announced a revision of the negotiated payment schedule, originally designed for incremental increases from 25 to 40 million tons annually over twenty years. The revised schedule set a maximum payment of 25 million tons annually. Many Japanese considered this development to be a breach of faith, but the deal was not broken off, yet.

One of the key disagreements to date had been Soviet insistence on a government-to-government basis for a deal, and the Japanese government's insistence that it would not become directly involved until a basic agreement had been initialed between Japanese private businessmen and the Soviets. Tanaka visited the Soviet Union in late 1973. At the end of the visit, the Soviets acquiesced to the Japanese government's position. The Japanese government agreed to cover 80% of the loans for the Tyumen oil project, and reiterated that the oil issue was separate from the Northern Territories issue.

The OPEC oil crisis of 1974 highlighted Japan's resource vulnerability. The possibility of reduced oil imports implied a negative GNP growth rate. The possibility

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280 Whiting, Siberian Development, pp. 138-139.
of recession and a balance-of-trade problem complicated the plans for long-range investment in Siberia.

In March 1974, the JSJECC directors held another meeting, in Moscow. Much of the discussion focused on U.S. participation in Siberian development and other projects. Japan wanted the U.S. to be involved to secure Japanese interests, and the USSR was interested in the credit which would be available if the U.S. Export-Import Bank was involved. On the last day of the talks, the Soviets dropped the bombshell.

In one fell swoop, Kosygin announced that the planned oil pipeline had been cancelled. In its place, the USSR planned to build a “multi-purpose transport” system, the Baikal-Amur Mainline (BAM). In effect, all the negotiations to date were liquidated. The Soviet Union presented the BAM as its keystone for overall Siberian development. Kosygin’s BAM announcement had seemed to infer that the USSR viewed Siberian development as a “package deal”, but conflicting Soviet pronouncements made verification of the point elusive. Although the utility of the change from a pipeline to a railroad is evident, the military and strategic implications were immediately evident, as well.

The sudden announcement of the Soviet change of plans disturbed the Japanese. The Kremlin’s decision was not made overnight, yet they had given little indication that such a drastic alteration of direction was imminent. In April 1974, Tanaka met with Prime Minister Kosygin and accused the Soviets of indecisiveness. He cited both the BAM proposal and the unexpected reduction in the agreement for oil deliveries. He further expressed doubt whether a “package deal” for Siberian development could be worked out, and maintained that a project-by-project approach would have more chance of yielding results.

The desire of the Japanese to gain a share of this market was obviously very strong. A logical reaction to the USSR’s fickleness would have been to write off the time lost in negotiations as a learning experience and to move on to more dependable ventures. Initially, Japanese government and business interests disagreed on how to approach the change. Businessmen still wanted to consider the project solely from an economic perspective.

The Japanese government foresaw that the overriding factors would inevitably be political and military. Within a month, even business leaders had conceded that the BAM issue had political overtones. Despite the desire to fulfill the efforts which had been expended so far, Japan realized that it would have to withdraw from joint
development of Siberian plans were contingent upon its support of construction of the BAM. Japan's reliance on the U.S. for its security would not allow it, in good conscience, to cooperate in what promised to be a vital strategic asset for the Soviet Union.

Moreover, other considerations were complicating the issue:

- Building the BAM was a risky and technically difficult project.
- Credit negotiations had deteriorated as both sides refused to give in from their interest rate positions.
- Questions remained unsettled about the denomination of payments, and about the price of extracted resources.

By May, the political climate had cooled. The USSR revealed that a visit to Japan by Brezhnev, Kosygin, and Supreme Soviet President Podgorny, scheduled for late 1974, would probably not occur.

As 1974 dragged on, the Japanese clearly demonstrated that their participation in the project hinged on U.S. participation, and its implicit blessing. Going into the rescheduled JSJECC talks in October 1974, Japanese businessmen were pessimistic about U.S. participation. Further negative feelings about the possibilities for joint development of Tyumen oil returned to the question of loans, and to the 25 million ton ceiling on imports from the investment.

As prospects for increased oil imports from China appeared to be on the rise, the Japanese decided to give up the joint development concept for Tyumen oil. Instead they proposed to purchase oil from the Soviet Union on a purely commercial basis. Upon the Soviet failure to offer any further concessions, the negotiations for Tyumen oil development ended in October 1974.

From the onset of discussions for Siberian development in 1962 to shelving of the proposals during the sixth JSJECC talks in 1974, both sides faced sufficient disincentives to halt progress. For the Japanese, the disincentives which halted negotiations for Tyumen oil ventures in 1974 can be conveniently separated into economic/technical and political/strategic groupings. Although the Japanese had not consistently either combined or divided the two groupings throughout the period discussed, Prime Minister Tanaka's efforts were directed at the possibility of separating them.

From that perspective, economical/technical disincentives were:

1. Soviet demands for a long-term, low-interest, deferred payment schedule did not offer adequate financial security for the Japanese, in view of projected inflation.
and fluctuating interest rates. From the beginning, the Japanese government had preferred a cash settlement basis for trade in oil.

2. In 1973 the Soviets unilaterally announced a 15 million ton reduction (from the proposed maximum of 40 million tons) in the rate of oil which would be "paid" to Japan from 1980 to 2000. The announcement caused the Japanese to doubt both the profitability of the returns to their investment and the reliability of the USSR to refrain from further unilateral reductions in the agreement.

3. In 1974, the USSR announced that it had decided to transport the oil via a new trans-Siberian railroad (the BAM) instead of by pipeline, as originally negotiated. The Japanese were uncertain about the economic feasibility of the BAM, given the geographic/climatic conditions which would have to be overcome.

4. Soviet estimates about the potential of the Tyumen oil fields were suspect.

5. In 1974, prospects were good for stabilization of oil supplies, and possibly even for a short-term oil surplus. Committing capital to a long-term, expensive oil venture in Siberia did not seem wise at the time.

6. Interest in Siberian oil was diminished by Japan's imports of oil from China, beginning in 1973. Increased oil imports from China were expected to follow.

7. Conflicting Soviet pronouncements in 1974 cast doubt on the stability of the economic planning for development--whether on a project-by-project basis or by a "package formula".

8. Perhaps the most risky disincentive of all was the prospect of undertaking a mammoth joint venture with a potentially hostile government with a "closed" economic system. The conspiratorial nature of the USSR and its enigmatic fluctuations over decisions cast a cloud of doubt over the prospect.

The political/strategic disincentives for Japan were no less important:

1. The U.S. rapprochement with the PRC under President Nixon had a destabilizing effect on the region, making long-term commitment to Siberian ventures with the USSR more risky than mere economic considerations.

2. Construction of the BAM would pose a strategic threat to the region and to Japan itself. Japanese participation in building the railroad could have contributed to strategic suicide, or could have signalled a move away from the United States security umbrella toward neutralism or even toward the Soviet camp.

3. Related to the point above was the implication that Japanese cooperation on BAM would have inferred Japan's support of the USSR's "Asian Collective Security System". That Soviet proposal was intended to contain China. Obviously, seeming Japanese endorsement would have inhibited Japan's efforts at rapprochement with China.

4. After the United States returned Okinawa in 1972, the issue of the Northern Territories was reheated in Japan. Japanese ready cooperation in the Siberian oil plan would have weakened Japan's bargaining power for the islands.
The USSR was experiencing disincentives, as well. Although their acceptance of the failed negotiations is not as clearly defined, one can speculate from knowledge of the Soviet political and economic systems that the following factors applied:

1. After the Marubeni-Iida about-face in 1967, the USSR doubted Japanese sincerity toward Siberian development as a joint venture beneficial to both parties. The trading company’s actions confirmed their suspicions that Japan was only interested in profit, not in a truly cooperative relationship.

2. The Soviet Union perceived its oil resources as a highly sought-after commodity. The 1973 oil crisis reinforced Soviet perceptions of having the upper hand in making deals for its valuable, non-renewable oil assets. In light of the ideological view that time is on its side, the Kremlin felt that it should maximize its advantage. If Japan did not like the conditions of the proposals, the USSR was better to wait than to give up a significant asset for comparatively little return.

3. The Soviet perception of itself is indeed autarchic. Along with the preceding disincentive, without significant advantage on the Soviet side, the Kremlin would remain more in line with its doctrine of self-sufficiency to continue slower development on its own than to risk the intrusion of foreign capital and influence within its borders.

B. CASE STUDY OF SUCCESS

In light of the preceding disincentives to both Japan and the USSR, one would think that the finalization of any meaningful trade agreement would be practically impossible. As an alternative, the Japanese can turn to the Chinese who have been easier to work with and can meet many of the same needs as the USSR. But diversity is important to Japan in terms of both export markets and imports of resources. The fundamental incentives to Soviet-Japanese trade—geographic proximity, complementarity of economic needs, and strategic inequalities of size and power—remain. Mutually beneficial trade has been proven possible.

Successful trade between the USSR and Japan has been concluded in timber products. With its loss of Sakhalin Island following WW II, the Japanese paper and pulp industries were devastated. To revitalize these industries, the Japanese needed timber. The Soviet Union was nearby and available.

In the first joint timber project, undertaken in 1968, the Japanese Export-Import Bank granted S163 million in deferred credits to the Soviet Union, primarily to cover the costs of machinery purchased from Japan. Japan was to receive lumber and sawed timber in return, through 1974.\textsuperscript{281}

\textsuperscript{281}Ed. A. Hewitt and Herbert S. Levine, "The Soviet Union’s Economic
The 1968 timber project was especially significant as it marked the first Soviet-Japanese collaboration since the start of the negotiations. Of the $163 million credit, $133 million was on a five-year deferred-payment basis (20% down, at 5.8% interest) for technical assistance and machinery, plus $30 million for consumer goods. The $30 million for consumer items (e.g., clothing and rubber boots for laborers) was to be repaid over eighteen months, again at 5.8% interest. In return, the USSR provided 7.6 million cubic meters of timber and pulp at a fixed price from 1969-73, and 0.32 million cubic meters of lumber from 1971-73.

An interim wood-chip project was developed in December 1971 for the construction of plant, port loading facilities, and wood chip carriers (ships). The Japanese extended $45 million credit for this effort. The Japanese terms of the deal were for a six-year deferred-payment (12% down, at 6% interest, excluding the ships), plus $5 million cash to meet local consumer needs. In return, the USSR supplied 6.35 million cubic meters of chip and pulp timber between 1972-77. Between 1978-81, an additional 6.4 million cubic meters would be shipped with payment calculated on quantity, not on value.

A second Far East Forestry Development timber project, in 1974, was based on a $550 million loan from the Japanese Export-Import Bank. Under this project, new timber resources were opened on the Kirenga, Selemdzha, and Amgun river basins with expanded paper and pulp mill capacity in Eastern Siberia. Japan furnished $550 million in loans—$435 million for facilities for the actual exploitation of timber resources, $65 million for ships, and $50 million for local costs. In return, the USSR supplied 18.4 million cubic meters of timber and lumber from 1975-79 at annually adjusted prices.

These joint wood projects were successful although Japan has alternative sources for wood products. First-grade softwood is available from North America and first-grade hardwood from Southeast Asia. Soviet woods are inferior in quality. The Soviets also require that an entire stand of trees be purchased, not selected or graded.


283Braden, “Anatomy of Failure,” p. 82.

284Whiting, Siberian Development, p. 136.

285Ibid.

trees. However, these deficiencies are minimized by concentration on their use for wood chips and pulp rather than for lumber.

The Soviet Union faces the problems of labor and transportation for extraction of timber products. Harsh climatic conditions require strong incentives for laborers. Forest reserves are generally far from roads or railroads, so transportation is a restriction. Larch, the most common variety of tree in East Asian Siberia, has a tendency to sink, so river floating is also risky.\(^{287}\)

Despite the apparent Japanese bargaining advantage, in 1978 Japan imported 17-20% of its wood products from the Soviet Union. As an indicator that this was a focus of Japan’s trade with the USSR, those wood imports represented approximately 40% of Japan’s total purchases from the USSR.\(^{288}\)

In light of the discussion of the failure of the Tyumen oil project, a couple of significant details stand out. In the early successful timber projects, the Japanese offered credit to the USSR at or below the interest rate desired by the Soviet Union. In return the Japanese received fixed rates on the material received in payment. The 1974 deal, finalized in the year that the joint Tyumen oil project negotiations broke down may have succeeded purely on momentum. The Japanese accepted their payment in annually adjusted prices, despite growing pessimism toward the reliability of the Soviets as business partners.

C. FISHING

The Japanese-Soviet fishing relationship is a multi-faceted issue. Dimensions include territorial limits, quotas on catches, management of the fish population, and fish processing.

Soviet-Japanese relations were in a negative cycle when the Tyumen oil negotiations broke down in 1974. The anti-hegemony clause in the Sino-Japanese peace treaty became public knowledge in January 1975.\(^{289}\) The Soviets responded with increased naval and air force activity north of Hokkaido to intimidate Japan. In Europe, West German Chancellor Willy Brandt had abandoned the disputed territory east of the Oder-Neisse to Polish control—an area promised to Stalin at Yalta, along with the Northern Territories, as spoils of WW II.


\(^{288}\)Ibid., p. 153.

\(^{289}\)Fuji Kamiya, “The Northern Territories,” *Soviet Policy in East Asia*, ed. Donald S. Zagoria, pp. 121-151. The details in this section are taken from Kamiya’s article unless otherwise noted.
These political issues had caused serious deterioration of Japanese-Soviet relations. A more tangible incident then occurred which hardened Soviet attitudes toward Japan. On 6 September 1976 a Soviet MiG-25 pilot defected, with his plane, to Hokkaido. Despite Soviet protests, the Japanese allowed the pilot to go to the United States, and returned the plane in parts two months later--after it had been dismantled and examined by technicians.

Three weeks after the defection, Soviet Foreign Minister Gromyko flatly told Japanese Foreign Minister Kosaka that the USSR had no intention of considering return of the Northern Territories as a prerequisite to a peace treaty. He totally rejected Japan’s 3-year old invitation for Brezhnev to visit Tokyo. A visit would only be considered when relations were friendly.

Given this setting of unfriendly relations, the fishing zone territorial limits are better understood. Shortly after the dismantled MiG-25 was returned, the Soviets struck back at Japan through fishing access controls. The USSR unilaterally declared a 200-nautical-mile exclusive fishing zone.

The significance was that the waters around the Northern Territories provide good fishing. Continued use of the area by Japan would now require political negotiations. The negotiations for a fishery agreement were concluded relatively quickly considering the animosity of the USSR toward Japan at that point. Started in February 1977, the agreement was concluded in May.

Article 1 of the treaty defined the 200-mile zone as including the Northern Territories on the Soviet side. Japan attempted to protect its “legal” claim to the islands by separating the fishing agreement from the territorial issue. Article 8 qualified that the demarcation in Article 1 would not affect either nation’s positions or views on other issues (i.e. “ownership” of the islands), but was a workable solution to establishing economic zones of control. There is some disputed ambiguity in the phrasing of Article 8, but the intent of the Japanese to separate the economic consideration from the political issue is clear.

Fishing negotiations occur annually. Each year, the Northern Territories issue is revived, accompanied by the pressures of public opinion in Japan and political/military power in the Soviet Union. The media of both sides promote the interests and perspectives of their respective nations.

The Japanese fishing lobby and historically-minded Japanese nationalists kindle Japan’s opposition to the USSR. The USSR often attempts to intimidate Japan by
“harassment” of its boats with Soviet naval craft. Moscow answers Tokyo’s protests by citing Japanese violations of catch quotas and poaching in forbidden waters.  

Each year the Soviets drive a hard bargain. They “own” much of the valuable fishing area, and Japan depends on fish as a dietary staple. The media raises the ante, and the negotiations begin.

The Soviets base their tough stance on international laws which charge them with ensuring the proper management of fishing in regions under their control. The Japanese use political pressure from public opinion to provide bargaining power. In the past, Japan has held out against strict Soviet proposals as long as possible. At last, Japan has made significant concessions to gain enough rights to survive.

In early December 1986 Japan and the Soviet Union formally signed an agreement for 1987 detailing the bilateral fishing quotas within each other’s 200-mile zone. 305 Soviet boats will be allowed to utilize the Japanese zone for a total quota of 200,000 tons of fish (primarily sardines and mackerel). For Japan, 1,600 boats will be allowed to enter the Soviet zone for a total quota of 300,000 tons of fish (primarily Alaska pollack, cuttlefish, and mackerel pike). Japan will compensate the USSR for the 100,000 ton difference by paying fees of roughly $8.1 million.

The contractual-legal basis of bilateral fishing agreements is determined by a number of agreements, including the one above. The primary negotiating body for cooperation in fisheries is the Soviet-Japanese Commission on Fisheries, established in May 1985. At the Commission’s annual meeting, the delegations discuss scientific-technical cooperation in the industry, and plan coordinated exploration of fish resources. The catch of the salmon species receives particular attention.

In keeping with its responsibility to protect salmon originating in the USSR, the Soviets declare a desire to totally end salmon fishing on the high seas. Such fishing prevents salmon migration to their spawning grounds, greatly depleting their numbers. The USSR has prohibited its own fishermen from high-seas salmon fishing for some years now.

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290 Whiting, Siberian Development, pp. 127-130.
Of course, Soviet fishermen do fish for salmon in the spawning areas, inside the Soviet 200-mile economic zone. The Japanese pay fees for access to this zone of Soviet control. The Soviet receive other economic cooperation benefits from Japan, undoubtedly calculated by the Japanese to provide leverage in the negotiations. The USSR stresses "new forms of cooperation", such as establishing joint ventures and broadening mutually beneficial ties between Soviet and Japanese fishermen.294

As evidence of successful cooperation, a Japanese firm, "Seyu" part of the business group "Seibu", built two fish stores (turnkey projects) in Nakhodka and Komsomolsk-on-Amur. "Seibu" has also made overtures for agri-industrial cooperation with the USSR. Members of the group and Soviet officials have discussed other joint projects in land improvement, plant selection, and the processing, storing, and transporting of farm produce.295

The second session of the Soviet-Japanese Commission on fisheries stalled in January 1986. Because negotiations were proving fruitless, the talks were suspended in February.296 Talks were begun again in March,297 and after two more months of negotiating, a salmon accord was finally reached on 24 May 1986.298 The Japanese made significant concessions in order to stave off a Soviet threat to impose a total ban on salmon fishing in three years, and to allow its fishermen to take advantage of the rest of the salmon season.

The immediate impact on Japan included a 35% reduction in its pelagic salmon catch quota, unequally matched by only a 17.6% reduction in the fishery "cooperation fees" it paid to the USSR for permission to fish in Soviet waters. The domestic impact of the accord was the affect on employment of 150,000 to 200,000 Japanese and a 45% reduction of its 380-boat salmon fishing fleet.299 (Japan signed an agreement in March 1986 with the United States to stop salmon fishing in the Bering Sea in 1997,300 further complicating the issue.)

294 Ibid.
300 FBIS (Asia), 28 May 1986, pp. C1-C2; also see related article (US-Japan-Canada) in FBIS (Asia), 8 November 1985, pp. C1-C2.
As a brief example of politically-oriented media manipulation of the annual fisheries negotiations, a snapshot of this past year follows:

1. On 3 December 1986, Kyodo noncommittally reminded the Japanese of the ongoing bilateral negotiations. It mentioned the visit of two Soviet trawlers to Hitachi port, made possible under last year's agreement.301

2. On 3 February 1987, Kyodo printed the Soviets' "bitter complaints" about "reckless" fishing--the USSR's position of strength on the salmon issue. It responded, in the same article, with the Japanese reminder that prolonged negotiations could hamper bilateral fishery cooperation--Japan's economic bargaining chip.302

3. On 12 February 1987, Kyodo printed the story of a Japanese trawler which had been seized by the Soviet Union for allegedly violating Soviet territorial waters. Whether guilty or not, the report stressed that the trawler was detained for 18 days, had been fined roughly S320 thousand, and was released after confiscation of both its catch of 27 tons of codfish and all its fishing gear (valued at another S150 thousand.303

The third session of the Soviet-Japanese Commission on Fisheries convened in Moscow on 2 February 1987 and ended on 25 February. Japan initially proposed that its salmon catch quota in the North Pacific should be increased 10,500 tons from last year's quota, to a total of 35,000 tons. It proposed an increase of roughly S3.35 million in fishery cooperation fees above 1986's payment, to a total of roughly S27 million for 1987.304

The Soviets claimed that salmon resources in the north Pacific are in an "unsatisfactory situation", and that the USSR's duty is to protect the fish from "reckless" offshore fishing by Japanese boats.305 They agreed to allow 24,500 tons of salmon--the same as in 1986. The Japanese compensation, for the expenses of Soviet organizations on salmon protection and reproduction, rose by about S1.35 million. The Soviets also stressed the need for bilateral cooperation on the rational utilization

of salmon reserves, and proposed that a joint test and production enterprise for salmon reproduction be established—on Soviet territory.\textsuperscript{306}

The Commission approved a plan, complete with a draft program for implementation of joint fisheries studies in 1987. The program will study reserves in the northwest Pacific, and improvement of methods of processing fish and marine products.

D. NEW DIRECTIONS

Due to the contemporary nature of trends in the relationship between the USSR and Japan, little empirical data is available to document specific quantities of change in their bilateral trade. Neither monetary amount nor volume of transfers is available to provide sufficient statistical backing for the change which appears to be happening. Soviet statistics are always sketchy, and up-to-date Japanese data are incomplete. The change has been instigated primarily by the Soviets' new willingness to open to the West.

Japanese businessmen have been willing to expand trade as much as possible within the limits provided by the Japanese government. The limits have primarily been determined by Soviet inflexibility and the closed nature of its system. The significance of the new Soviet economic proposals is that they reflect a new opportunity and willingness to accept trade from the West.

The Kremlin has indicated its plans for economic outreach by officially developing the vehicles by which its economy can deal with the West. Specific vehicles for developing foreign economic relations are found in the "Joint Ventures Law", the "Draft Law on State Enterprises", and the "CMEA Comprehensive Plan for Scientific and Technological Development to the Year 2000". These documents have been discussed previously.

A further concrete indicator of Soviet dedication to significantly increasing its foreign trade is embodied in a Resolution by the CPSU Central Committee and the USSR Council of Ministers.\textsuperscript{307} To provide centralized leadership for expanded foreign trade, the "State Foreign Economic Commission" was created as a standing organ of the USSR Council of Ministers.\textsuperscript{308} The new Commission directs the work of all


\textsuperscript{308}Ibid., p. S1.
ministries and departments engaged in foreign economic relations. In describing the State Foreign Economic Commission (FEC) responsibilities, the concepts "radical", "dynamic", and "progressive" were used in the Resolution to indicate the nature of its role.\(^{309}\)

A Scientific Economic Council was created, subordinate to the FEC, to elaborate major problems and to prepare recommendations for development to foreign economic relations. The Chairman of the FEC is also the Chairman of the State Committee for Science and Technology--a pointer for the direction of proposed Soviet foreign economic activity. For established coordination with its bloc partners, the first deputy chairman of FEC is also the USSR’s permanent representative to CMEA.\(^ {310}\)

Associations, enterprises, and organizations are specifically given the right to establish links with similar activities in CMEA countries, independently resolving questions concerning production agreements and contracts, and scientific-technical collaboration. A number of ministries, departments, associations, and enterprises are granted the right to carry out export-import operations directly, including markets in capitalist countries, NICs, and LDCs. Activities granted this opportunity are financially autonomous, including currency self-financing and self-capitalizing.\(^ {311}\)

The USSR Ministry of Foreign Trade retains the obligation for operations of statewide significance. The foreign trade activities under the FEC must ensure that they develop high-quality goods, acceptable for world markets. The Ministries have been further instructed to improve planning of foreign economic activity to allocate more than "residual" resources to exports, and to stop permitting "unwarranted" imports.\(^ {312}\)

The vision is to regain control of the economy by aggressive measures. High-quality exports will bring in hard-currency. Producing high-quality goods for domestic use will eliminate wasting funds needlessly on imports which can be internally manufactured.

The exchange of visits by Soviet and Japanese Foreign Ministers in 1986 heralded a fast-moving rapprochement between the two countries--or so many analysts believed. *Bungei Shunju* reported in October 1986 that the Japanese Foreign Ministry had moved

\(^{309}\) Ibid., p. S2.

\(^{310}\) Ibid., p. S3.

\(^{311}\) Ibid., pp. S3-S4.

\(^{312}\) Ibid., p. 55.
in the direction of a "tilt towards the Soviets".\textsuperscript{313} Japanese writers were predicting that Nakasone was aiming for the Nobel peace prize by attempting to finalize a peace treaty between the USSR and Japan.\textsuperscript{314} They cited the USSR's desire to rapidly fix its economy as incentive enough to "give away" two of the four Northern Islands (i.e. Shikotan and the Habomais) and Nakasone's desire for a page in history as incentive enough to accept the offer.

Although Gorbachev's subsequent snubbing of Nakasone's repeated offers for him to visit Tokyo calmed the feverish political speculations,\textsuperscript{315} there is still some hope for such an agreement. Until that time, the official position of both countries is that all "four islands" are rightfully theirs.

The Kremlin has reiterated that its friendship is not without limits. It has denounced Japan for continued "harping" on the Northern Territories issue,\textsuperscript{316} for its support of U.S. forces\textsuperscript{317} (especially the presence of the F-16's at Misawa), and for its participation in SDI research.\textsuperscript{318} Secretary Gorbachev has also lashed out at the West for its unwillingness to share technological advances with the whole world,\textsuperscript{319} meaning with the Communists. In statements which reflect the Soviet desire to maintain a proud image, he has lashed out in the other direction and declared that the Soviet Union does not need Western help--the USSR is fully capable of meeting its objectives independently. Mikhail Gorbachev stated, following a visit to the Baikonur space center in Kazakhstan in May 1987,

\begin{itemize}
\item \textsuperscript{313} "Rapprochement with USSR Discussed," \textit{FBIS (Japan Report)}, 17 October 1986, p. 1.
\item \textsuperscript{314} "Speculation on Return of the Islands," \textit{FBIS (Japan Report)}, 17 October 1986, pp. 2-6.
\item \textsuperscript{315} "USSR Forces Nakasone to Rethink Diplomatic Strategy," \textit{FBIS (Asia)}, 17 November 1986, p. C1.
\item \textsuperscript{318} "Talks on Japanese SDI Participation End 24 Jan", Ibid., p. C2.
\end{itemize}
there is no need for us to go cap in hand to foreign lands. No embargoes, no
bans on the sale of technology and equipment to us, adopted by some foreign
circles, will slow down our country's development.\textsuperscript{320}

Out of all this, we can read a great Soviet desire to acquire technology and managerial
techniques which will save expenditures of research, development, and production.
However, the Kremlin will not allow the USSR to be manipulated because of
technological shortcomings or industrial backwardness.

The CPSU's General Secretary Gorbachev told Britain's Margaret Thatcher in
April 1987,

The Socialist system has demonstrated repeatedly and in many ways its
advantages over capitalism. This is not boasting but a hard fact. Far from all its
potentialities have been identified and put to use.\textsuperscript{321}

Aleksandr N. Yakovlev, a Gorbachev Politburo appointee in charge of culture
and propaganda, told a reporter recently, "Unleashing the Cold War has been your
success, but you won't catch us a second time."\textsuperscript{322} Noting that the Soviet approach to
foreign policy is based on its assessment of domestic and foreign affairs, he stated that
the Soviets feared an American nuclear attack for three generations--but not anymore.

On the development of Soviet economic resources, he feels that the USSR needs
to decentralize power and release initiative, but adds,

We still believe in the socialist principle of a centrally-planned economy along the
main lines of investment and the scientific development of our economy...We
shall again astonish you in the West. And it is not yet the deep of the night. We
will astonish you.\textsuperscript{323}

The USSR will not soon draw close to the West as a "good neighbor".

However, Yakovlev also stated, "I believe that the Soviet Union and Japan are
natural trade and economic partners. I believe that the Japanese understand this,
too."\textsuperscript{324} He said that U.S. trade embargoes and restrictions on the exports of

14 May 1987, p. 6.

\textsuperscript{321}Ibid.

\textsuperscript{322}Ibid.

\textsuperscript{323}Ibid.

\textsuperscript{324}"Propaganda Chief Yakovlev on Soviet Reforms," \textit{U.S. News & World Report},
1 June 1987, p. 38.

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technologies have driven the USSR to orient its attempts at Western trade toward Japan and Europe.

E. JOINT VENTURES AVENUES

Secretary Gorbachev has also expressed the desire to expand trade with Japan. In the “Vladivostok Speech” he made specific reference to the willingness of the USSR to develop a new, close relationship with Japan. Speeches by other prominent Party spokesmen have also referred to Japan as a welcome candidate for increased economic relations.325 Recent developments in the USSR have suggested that the Kremlin intends to expand its trade via joint ventures.

Joint ventures are a convenient method of introducing foreign technology and capital into the USSR. Through joint ventures, the USSR expects to gain scientific information. Cooperation between enterprises will expectedly link technology with the practical application of business.326 Joint ventures minimize the hard-currency required to establish new projects, and provide some “insurance” against trade sanctions. Interdependence is created by mutual financial stakes in the success of operations.

The USSR first announced that it would enact a “Joint Ventures Law” to an audience of Japanese businessmen. Soon after, members of the Japan-USSR Business Cooperation Committee attended a seminar in Moscow. They reported that, by late December 1986, Soviet enterprises had been approached by 100 interested foreign firms. Of those, eleven proposals were presented by Japanese businesses.327

In December 1986, former Japanese Foreign Minister Saburo Okita discussed the prospects of Soviet-Japanese economic relations with a Moscow radio reporter.328 He opined that joint ventures should be expected, beginning small and growing larger with mutual experience. He felt that fisheries would be a likely initial undertaking. He did


not expect Japan to seek increased imports of minerals and coal, for example, since Japan was moving to diversify away from industries which are dependent on those natural resources.

In the interview, Okita seemed most impressed by the change in the Soviet Union’s attitude.

Under a recent new policy, the Soviet Union will no longer seek to produce everything by itself. It is seeking to produce popular goods and export them, but it is also seeking to import commodities from foreign countries when their domestic production is not favorable. The Soviet Union now seems to have the concept of international division of labor. In particular, as far as Soviet civilian industry is concerned, it has thus far been less competitive on foreign markets. However, government officials and economists are now likely to gear their thinking toward producing competitive goods in terms of quality and price for sale to foreign countries. In this context, it seems possible to develop new types of trade between the two countries.\footnote{329}{Ibid., p. 68.}

Okita is saying that the Soviet leadership has seen the realistic need to utilize assets from foreign sources which it has not developed itself, or which it cannot afford to undertake alone. He implies that the Soviet Union is moving toward the "free market" concept of comparative advantage.

An overly optimistic outlook would be that the Soviet Union and the Western societies will grow closer through joint ventures and economic cooperation, diffusing the animosity between them. A more realistic viewpoint is that the intent of the USSR’s drive is selfishly motivated. The Kremlin has admitted its economic deficiency and will use the West to help fix it.\footnote{330}{Flora Lewis, "Moscow Still Believes," \textit{New York Times}, 10 April 1987, p. 10.} As soon as the economy has been rebuilt, the era of detente will probably fade into history. The CPSU still wants to retain control, and the ideological objective is still "the ultimate victory of socialism"—whether through peaceful or aggressive means.
VIII. SUMMARY/CONCLUSIONS

A. USSR

The Soviet economy is not likely to collapse. The standard of living may not improve very rapidly, but the Soviet peoples are famous for their cultural ability to suffer and continue on. The centrally-planned nature of the system ensures that the necessary inputs for the Kremlin’s vital projects will be acquired.

The purpose of the Politburo’s current reforms is to invigorate the USSR’s economic system. Reforms will be consistent with integrated policies for strengthening the bonds of the socialist bloc to the Soviet Union (as demonstrated in the CMEA Comprehensive Plan to the Year 2000). “Proof” of successful reforms will be steady economic growth through capital modernization and increased productivity, as well as indisputable evidence of the benefits of socialism at the worker level.

Critics will argue that Soviet “maskirovka” (deception) and conspiratorial nature (secretiveness) will never allow the USSR to open the doors wide to any Western power. The historical, traditional basis for this argument is strong.

The Soviets will be cautious about the speed of development of economic ties with the West. Overdependence on the West for equipment (e.g. spare parts) could make the Soviet Union uncomfortably vulnerable to trade sanctions. By absorbing complete production packages, the USSR’s modernization will be slow, but the pace will allow the USSR to maintain invulnerability to Western attempts at economic manipulation.

The USSR can continue its development at a pace consistent with low-risk ventures, without the pressure of impending crisis. As long as the Politburo believes that Soviet socialism can survive independently, it can avoid desperate decision-making and is not likely to risk confrontation with its opponents.

Secretary Gorbachev is well-founded in both ideology and economics. The pro-trade interpretation of his motives is that he represents a pragmatic perspective which has recognized and admitted the dangers facing the Soviet Union domestically. The USSR cannot remain isolated from worldwide interaction.

- The Soviet economy’s growth has been declining. Drastic measures are necessary to wake it up.
The source of the economy’s decline, relative to prospering capitalist countries, is its wasteful nature. Massive amounts of inputs are expended to maintain economic stability.

"Perestroika" is based on increasing efficiency and productivity in energy, labor, raw materials, natural resources, transportation, communication, and planning.

Japan has established a phenomenal record of success in promoting worker efficiency and productivity globally—increased Soviet labor productivity would theoretically enable the GNP per capita to grow, even in the face of Russian demographic decline.

Modernized equipment and processes would enable the USSR to develop more efficient production lines. Incorporation of advanced techniques and designs would produce higher quality manufactured goods for competing on world markets and for earning hard-currency.

Advanced communications and data processing are necessary for more efficient planning and improved centralized control. "Glasnost" is providing the avenue for advanced communications to be "safely" introduced into the USSR.

Increased consumer goods and worker benefits will raise the standard of living, and will increase incentives to work productively. A higher standard of living will increase the CPSU’s stature as the "correct" political model. The USSR will become more attractive both globally and domestically.

Once established economically, the USSR will become attractive to workers worldwide. Socialist ideology will spread, and nations will become "ready" for Soviet assistance in moving forward from capitalism toward communism.

This last point is in the distant future, but the current Soviet reforms provide more hope for that eventuality than the present existence offered to most Soviet citizens.

Although Japan’s position in the preceding train of thought is not vital to the Kremlin’s plan, Japanese experience and products could hasten the process as described above. Consequently, the Soviets would like to have ready access to Japanese products and processes which would give them an advantage.

Success of the Soviet centrally-planned system is based on the ability of those in control to adequately foresee the needs of the system’s parts, to ensure timely provision of sufficient inputs to each sector, and to distribute satisfactory output to the nation. Although the USSR does not have an inherent dearth of ideas for improvement, the existent mechanisms for implementation of ideas are generally unproductive. Translation of concepts into functional designs and products is slow. Once developed, diffusion and acceptance of new products and methods throughout the nation is difficult.
Japanese expertise in computers and data processing offer relief for the administrators of central planning. The ability of electronics to store, compile, file, edit, compute, and transmit information is critical to success in the Soviet system. But resistance to change is strong at all levels of Soviet society. Giving up the inefficient, but familiar, vertical “pre-reform” system for expanded horizontal relationships will be difficult.

In addition to the centrally-planned system’s inherent resistance to change, Western analysts must also be mindful of the information control problem as a hindrance to the Soviet utilization of high technology. The combination of the historical technology diffusion problem (across the system), the traditional avoidance of risk (within the system), and the perpetual fear of loss of control (from the top) dictates that modernization will be slow in becoming effective. The measure of the Politburo’s success will be how skillfully it is able to balance decreased external pressure (through detente and arms control/peace initiatives), internal pressures (demographics, bureaucratic resistance to change in the system), and progressive reforms (incentives, “glasnost”, high-tech information systems, increased efficiency) without losing Party control and without compromising its ideological legitimacy.

Soviet aggressiveness in obtaining the equipment and processes which are deemed important is evidenced by its covert acquisitions. Western countries get upset when their technological advantage is compromised by Soviet theft and illegitimate purchases. These covert operations underscore the importance of modernization and scientific advancement to the Kremlin.

The USSR values high esteem in world opinion and would rather avoid accusations of technology theft. But it values self-preservation moreso. While condemning the West for selfishness in not sharing its technological advantage, the Soviets have capitalized on the weaknesses of individuals in capitalist societies to acquire the fruits of the competitive, capitalist system. This “low-road” avenue of covert activity continues regardless of the nature of activity occurring on the official “high-road”.

The political “high-road” fluctuates between detente and aggression, following the path perceived as most advantageous by the Kremlin at the moment. In most of 1986 and 1987 the world has seen the smiling face of General Secretary Gorbachev. The USSR has put the onus for world peace on the United States. Gorbachev’s peace initiatives, shifting world opinion toward the peaceful nature of the USSR, are forcing
the United States to consider policy options which are reactive. The Soviet Union will not propose or agree to any option which decreases its advantage, yet the position of initiative has given the USSR credibility as a sincere, status quo power.

Secretary Gorbachev and other Soviet leaders have clearly stated their political desire for peace and an expanded relationship (read "trade") with Japan. However, hopeful prospects for really new developments have subsided in the face of power politics. Exchanges of Foreign Ministers, and Nakasone’s hopes for a Tokyo visit by Gorbachev, gave way to more fundamental realities. The Kremlin’s friendliness toward Japan subsided when Nakasone did not display sufficient acquiescence to Soviet desires. Nakasone’s participation in “Northern Territories Day” activities in Japan evidenced a Japanese hard-line approach which the Politburo did not appreciate. Verified Japanese participation in the United States’ SDI research program, continued support of a U.S. presence in Japan, and the inevitable expansion of Japanese defense expenditures above 1% of GNP, have caused the USSR to become cold in its political attitude toward Japan. Meanwhile, as evidence of mutual economic compatibility and desire, separate Soviet-Japanese economic relations have continued.

Politically, the Japanese have declared the Northern Territories to be the critical factor in a Soviet-Japanese peace treaty. For the Soviets, the islands are critical for its Far East military strategy. Unless their bastion concept changes, the USSR will not give up the Northern Territories. They might consider a “trade” of the southern islands, Shikotan and the Habomais, for significant economic gains.

The other military issue, the SS-20s, is not as visible as the Northern Territories, but is equally as important. The SS-20s are a nuclear threat to Japan’s survival—a sensitive issue. This military issue is tied to politics by Japan’s Mutual Security Treaty with the United States. The USSR has threatened Japan with destruction because the U.S. uses its territory for military forces. The Kremlin further has tried to drive a wedge between Japan and the U.S. by offering to withdraw the SS-20s east of the Urals (east of 80 degrees east longitude). Although the missiles still have the capability of reaching Western Europe, the implication of the proposal is that Japan has been subordinated to Western Europe in relative importance to the United States.

One of the USSR’s most serious problems in economic modernization is domestically applying the fruits of the Kremlin’s international manipulations. When Soviet attempts to acquire improved equipment, technology, and managerial techniques are successful, they must still be applied within the Soviet system. The psycho-social
impediments to Russian modernization are characterized as conspiratorial, xenophobic, autarkic, and risk avoiding. The Russian conspiratorial nature, thriving on secrecy, is a deep-rooted hindrance to cooperation and predictability. Xenophobia and autarkic mentality cause resistance to foreign ideas and methods. Most importantly, the survival syndrome inhibits change from domestically proven methods—the existent system has provided the peoples’ basic needs and has transformed the USSR into the undisputed position as one of the world’s two great superpowers. The feeling is that the “old way” may be slow, but it has worked...why risk the present security on a gamble with new approaches to the economy?

B. JAPAN

Although Japan needs natural resources for both energy and raw materials, it will not allow its economy to become vulnerable to the USSR for those imports. The Japanese government will continue to keep its Soviet resource dependence at a low level. If the Soviet Union opens its internal markets to Japanese businessmen, the likelihood of Japanese participation in joint ventures will be greater than if the USSR maintains its focus on export-orientation. Japan will continue to massage its relationship with the U.S. as a protection against further Soviet threats and military buildup in the region.

Japanese businessmen will buy into as much profitable Soviet trade as they can. Limitations will be set by the Japanese government’s perception of the amount of economic vulnerability created by trade, as well as by security issues. At this point, it is unlikely that Japan would consider trading its partnership with the United States for one with the Soviet Union. The U.S. is emotional, but not threatening. The USSR is smiling, but the facade may not last.

Economically, Japan can get along without expanded trade to the USSR. Japan is doing very well at expanding its markets globally without purposely taking on the problems inherent in trade with the Soviet Union. However, the USSR does offer a potential market. Japanese speculators hope that the new Soviet reforms are the harbinger of real change and lucrative markets. Some Japanese businessmen are eager to take the investment risk in hopes of high returns.

Promotion of business is key to increased Japanese-Soviet trade, so arguments in favor of technology transfer are strongly supported, especially in non-military applications. Although Japan will officially continue to support CoCom, the existence of international capitalist competition drives Japanese businessmen to insist on having
equal opportunity for a share of Soviet trade. Man's self-serving nature, set in a capitalist environment, suggests the likelihood that illegal technology transfers will also continue. The official actions taken in response to apprehension of offenders illuminates the political perspective of the government toward the restrictions.

Politically, Japan is closely tied to the United States. The major intervening variable in the prospects of increased Soviet-Japanese trade, the Northern Territories, remains unresolved largely due to Japan's alliance with the United States. Although the issue is primarily strategic for the USSR, and psychological for the Japanese, the U.S.-Japan Mutual Security Treaty makes the problem political, as well. Soviet hopes to separate the U.S. from Japan are hampered by U.S. military support of Japan. Nakasone's participation in rallies which continue/promote the Northern Territories issue indicates official political animosity toward the USSR, hindering growth in economic trade.

On the other hand, Japan consistently declares its desire for peace with the USSR, indicating a willingness to improve political relations. Separation of economic from political issues provides an avenue for Japanese economic expansion and incentive for Japanese political relaxation of bilateral tensions.

Japan's decision to increase its own defense expenditures above 1% of its GNP provided a propaganda issue for the USSR. By adding weight to Soviet denunciations by its "remilitarization", Japan helps the USSR to tip the balance of world opinion in the Soviets' favor. The militant perception of Japan has been further promoted by Nakasone's characterization of Japan as an "unsinkable aircraft carrier" for the United States, and by the American-Japanese secret agreement which allows "introduction" of U.S. nuclear weapons into Japan. Soviet-Japanese economic cooperation helps to rebalance the scales for peace by increasing mutual stakes in a friendly bilateral relationship.

Japanese popular opinion is becoming increasingly nationalistic. The U.S. is becoming more unpopular in Japan because of trade frictions and American political ambiguity. But the Soviet Union remains unpopular in Japan primarily due to the ongoing Northern Territories issue. Soviet attempts to show "good will" by allowing the reinstitution of graves visitation on the islands was only partially successful--to some degree the gesture highlighted the Soviets' wrongful occupation. A Soviet-Japanese peace treaty, contingent on the Northern Territories question, would remove official obstacles for expansion of economic relations.
As for the incorporation of Japanese managerial techniques into the Soviet economy, the most serious hindrance is psycho-social. Japanese successes in productivity, efficiency, and quality control are culturally founded. The evidence of Japanese success may appear more promising than the practical adaptability of the techniques into a culturally divergent context. Both Russian and Japanese societies are high context, but the respective cultural attitudes toward the worker-employer relationship vary widely.

C. UNITED STATES

The United States' position in the Soviet-Japanese relationship is not an easy one. Its pluralistic society, freedom (and sensationalism) of the press, and historically undemanding international relations combine to make foreign policy a difficult issue. Japan and the USSR are at the extremes of U.S. bilateral relations. The USSR is its main opponent. Japan has been a consistent supporter of U.S. decisions and its strongest economic ally. Balancing its relations with these two poles requires careful consideration of the inter-relationship of the various aspects of the Japanese-Soviet trade and technology transfer question.

Economically, the U.S. and Japan are undergoing stressful bilateral relations. Trade frictions, caused by capitalist competitiveness, have grown to proportions affecting the interpersonal attitudes of Japanese and Americans. The Japanese quest for continued economic expansion has caused a discrepancy in Japan's application of international free trade concepts.

Generally speaking, Japan has severely restricted imports while demanding deregulation against its exports. The U.S., meanwhile, has blamed a great deal of its own inefficiency and low productivity on Japanese trading practices. A possible extended consequence of these deteriorating trading relations between Japan and the Western free markets would be the inclination of Japan to turn toward an alternative market—such as the Soviet Union. However, at the “Big Seven” economic conference in Vienna in June 1987, the expected Japan-bashing did not occur. Non-iteration of previous threats toward Japan is a signal that a unity of purpose, or at least a common front, still exists among the leading industrialized nations, despite speculation to the contrary.

The CoCom countries continue to enforce restrictions of militarily significant technologies. The United States, absorbing most of the cost of maintaining the military technology gap, spearheads the efforts to restrict technology transfer to the
USSR. Officially, Japan has been an adamant supporter of the United States in this realm despite the monetary opportunities offered by the USSR's desires for technology acquisition. Illegal transfers of restricted technologies (e.g. submarine propeller milling machines) and authorized transfers of dual-use technologies (e.g. ball-bearing precision grinding machines) will continue to cause stress within the U.S.-USSR-Japan economic triangle as long as the opportunity to make a profit over-rides security considerations.

But Japan will not give up its friendship with the United States or its other Western democratic friends for a few rubles from the USSR. Although individual Japanese may be overcome by monetary aspirations, the Japanese government understands the importance of long-term relationships to continuation of its way of life. Japan is tied to the United States by its political system, and has experienced, first-hand, the beneficence of Americans. The contrasting experience of other countries defeated in WW II, i.e. those who were managed by the USSR, is a vivid reminder of the advantages of the American alliance over the Soviet bloc.

As part of the United States "protectorate", Japan has been self-restrained in its military power, but has consistently made concessions to demonstrate its dedication to the alliance. Japanese agreement to participation in SDI research undoubtedly had lucrative economic implications, but was also confirmed in the face of Soviet threats and intimidation attempts.

The availability of Japanese facilities for use by U.S. naval and air forces is a great contribution to the American ability to project the alliances's power globally. As an element of strategic nuclear deterrence, Japanese agreement not to ask questions about nuclear capable U.S. naval craft simplifies implementation of the American alliance defense strategy.

Japan agreed to accept protection responsibility for SLOCs and to increase its domestic defense expenditures. However, these actions, combined with Japanese willing cooperation on the nuclear issue, made the tentative American acceptance of the "zero-zero" option a disturbing surprise for Japan. The option seemingly allows the SS-20s to more directly threaten Japan than Western Europe. The psychological impact of potentially "decoupling" Japan from the rest of the Western alliance, following Japanese concessions to American mutual security requests, was magnified by the trade friction rhetoric being flung about in both Japan and the United States. The emotional character of Americans is temporarily driving U.S. Congressmen to over-react to trade frictions.
However, even the growing nationalism in Japan is not likely to overcome the rational importance of its alliance with the United States, but cooperation is being tested. The United States and Japan will suffer some growing pains in the near future, but rational understanding of mutual U.S.-Japan reliance in strategic and economic affairs will resolve the current political and economic strains. United States businesses, realizing that their non-competitiveness is not wholly Japan's fault, will make necessary progressive changes. Japan will comply with demands to loosen its trade restrictions with other Western nations and stimulate its economy to promote foreign imports.

Japan will continue to provide facilities as its part in mutual security with the United States, and will expand its financial support to relieve some of the fiscal superpower security strain on the U.S. budget. Although Japan can be expected to expand trade with the USSR, that trade will not be conducted at the expense of its long-term relationship with the United States.

D. USSR-JAPAN

Both the USSR and Japan are predominantly controlled by the socio-psychological considerations within their respective high-context societies. The Japanese hierarchical structure, combined with its bottom-up consensus-building nature, has created an aggressive, efficient, productive economy. Soviet community survival instincts, combined with the elite's obsession for centralized control, has created a slow-changing, unpredictable, sluggish economy.

Japan has put great emphasis on economic expansion, although less than on nationalistic and cultural considerations. It decisively resists major concessions to its position of economic advantage. Japanese international political concerns initially appear prevalent among its features, but they are in reality subordinate to economic and security issues. Japan's economic strength is now its source of international pride. Its military weakness requires political concentration to retain the protection of the United States and to deter Soviet aggression.

The USSR emphasizes its military strength above all. Security is the number one consideration, driving Soviet economic and political decisions. Presently, the USSR's pride and world "prestige" are based on its military capabilities. The second priority is the economy. A solid economy is necessary for maintaining its military prowess. Moreover, a flourishing economy would lead to a globally attractive Soviet socialism. International politics are a necessity for the USSR--a means to achieve its objectives despite its xenophobic, conspiratorial, and uninviting culture.
Japan has demonstrated mastery of the business concepts that the USSR needs. *Efficiency* and *productivity* are fundamental to Soviet economic reforms. No other nation can offer the expertise and record of sustained success earned by Japanese businessmen.

In addition to its managerial experience, Japan is in the forefront of research in automation, biotechnology, artificial intelligence, and micro-chip advancement. Japan has demonstrated proficiency in quality control and its products are generally regarded as the epitome of reliability and reasonable pricing. These factors have made Japan the standard for competition in world markets.

As a result, the Soviet Union is most desirous of gaining a working economic relationship with Japan. While denouncing Japan's involvement with the United States and its allies, the USSR has clearly indicated the desire to expand trade and technology transfer with Japan.

Japan can be expected to work toward a stable relationship with the USSR, and in so doing, will trade its high-technology expertise as much as possible—consistent with Japanese national security and mutual security with its allies. The limiters to Japanese-Soviet trade will be determined, to a great degree, by the USSR's openness to *mutually* beneficial trade. As long as the USSR insists on receiving an inordinate share of the benefits of joint ventures, Japanese businessmen will be discouraged from massive investment.

Japan will basically allow its private businesses to conduct as much trade as they desire with the USSR, within the minimal restrictions required by security considerations and extra-national agreements such as CoCom. Unofficial (i.e. "non-political") control will be further exercised by availability of credit and guarantees through the Export-Import Bank of Japan.

The USSR will insist on terms highly favorable to its own interests. If the deal is good, business will be conducted. If a clear advantage to the USSR does not exist, the Soviets will revert to slow, autarkic development. The Kremlin will balance its desire for rapid economic growth (stimulated by imports for modernization) with its fear of being perceived as easily manipulated. Russian national pride will not allow the Soviets to settle for less than a clear advantage in an economic deal, but the need for rapid evidence of success in the reforms suggests that some flexibility will be evident.

The overall bottom line is that the Kremlin does want to give vitality to its economy and to increase the nation's standard of living. The USSR sees Japan as the
economic leader in most of the key areas where it wants to grow, and will seek Japanese cooperation. Because they are neighbors, Japan is not likely to make a diplomatic peace without security-related concessions from the USSR. Especially important to resolution of Soviet-Japanese animosity is a Soviet political concession on the Northern Territories issue. Beyond governmental security and political issues, the pressure from Japan's business sector will push the nation toward greater economic ties with the Soviet Union. Increased trade and technology transfer between Japan and the USSR are to be expected, but the increase will be slow.

- The USSR can only diffuse and integrate Japan's economic contributions slowly. Equipment and production modernization requires both time and money. Changing cultural attitudes of workers and bureaucrats will take time, regardless of the logic of the new concepts or the rewards they portend. The Kremlin will control the pace of development to ensure that the USSR retains its fundamentally autarkic economic invulnerability.

- Japanese businessmen will be restrained by the relatively low returns of Soviet business terms and by the unpredictability and opaque facade of the Soviet Union. Japan's government will enforce restrictions on state-of-the-art and militarily significant technologies and products. Japan will officially allow low-level beneficial trade with the USSR. It will not consider any large-scale or bilateral agreements until the Soviet threat to its security is diminished, and until a Soviet-Japanese peace treaty is signed--contingent on settlement of the Northern Territories issue.

Current trends suggest that economic exchange will grow, due to complementary desires, but there will not be a massive transfer of technological advantage from Japan to the USSR.
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