



## Japanese Business, Soviet Development, and Territorial Conflict, 1975-1985

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### Abstract

The article takes a close look at the claim that the Japanese Foreign Ministry's policy of "inseparability of politics and economics" (*seikei fukabun*) hampered Soviet-Japanese economic relations in the 1980s. Taking three case-studies (South Yakut coal, Sakhalin oil and gas, and the Siberian pipeline), the author shows that the loss of interest on the part of Japanese business circles in investing in the Soviet economy had little to do with the political priorities of the Japanese Foreign Ministry, and much to do with the changing energy needs and structure of the Japanese economy and its shift towards greater resource-efficiency. The article concludes, therefore, that the solution of the "territorial problem" would have hardly contributed to increasing Japanese investment in the Soviet Union; hence *seikei fukabun* was based on a false premise. The findings may be relevant to the ongoing territorial dispute between Japan and Russia and, in a broader sense, between Japan and its other neighbors, notably China.

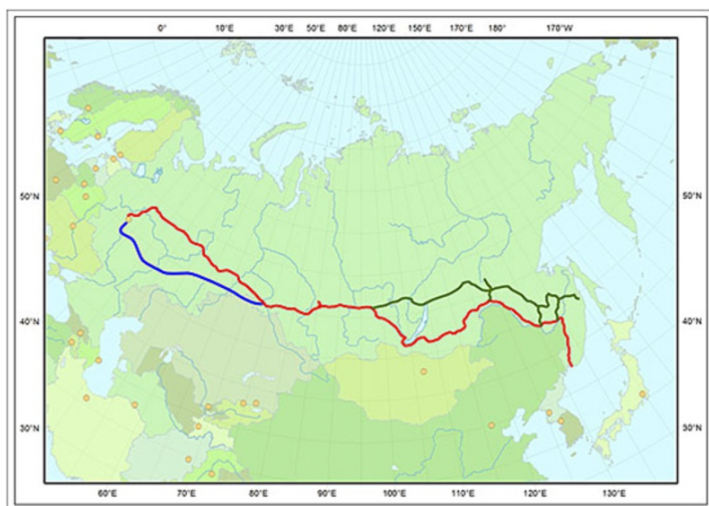
The 1970s were good times for Soviet-Japanese relations. The warm currents of détente, and even more, the thunderbolt of Sino-American rapprochement, spelled the necessity for policy makers in both Moscow and Tokyo to rethink their mutual hostility. The problem was how to resolve the long standing territorial problem. Japanese Prime Minister Tanaka Kakuei believed that Brezhnev was prepared to compromise in the interest of attracting Japanese investment. The basis for his optimism was Brezhnev's supposed agreement with Tanaka's remark, during their summit in Moscow, in October 1973, that the term "unresolved questions" in Soviet-Japanese relations included the territorial problem. Moscow denied, however, that Brezhnev had accepted any such interpretation, and the two sides remained at loggerheads.<sup>1</sup> In the absence of a political breakthrough, however, economic ties expanded at an impressive rate throughout the 1970s despite resistance in both capitals to the idea of separating politics from economics.

The trade and investment bonanza was a result of specific circumstances peculiar to the 1970s; Soviet failure to understand this contributed to the loss of momentum in Soviet-Japanese relations in the following decade. Specifically, Soviet policy makers continued to think – well into the Gorbachev era – that economic cooperation with the Soviet Union was an irresistible prospect for the resource-starved Japanese, hence there was no need for political concessions. The idea was that Japan needed the USSR more than the USSR needed Japan, and it would sooner or later come around to recognize this and drop territorial demands for the sake of lucrative contracts. This conception, underpinned by Soviet great power disdain for little Japan, blinded Soviet policy makers from Brezhnev to Gorbachev to the importance of developing a political dialogue.

On the other hand, Japanese policy makers exaggerated Japan's importance for the Soviet Union and so overplayed their cards by closely linking politics and economics in the expectation that the lure of Japanese investment would eventually force the Kremlin to make political concessions. This confidence was strengthened by the changed circumstances in the world economy, from the oil shocks of the 1970s, to the resource glut of the 1980s, and by the emerging structure of the Japanese economy with greater efficiency aided by advanced technologies. These developments eased the pressure by the industrial lobby on Japanese politicians, and, by extension, provided incentives to the Foreign Ministry (Gaimusho) bureaucrats to maintain their policy of "inseparability of politics and economics" (*seikei fukabun*). This policy was no doubt reinforced by the economic sanctions imposed by the United States on the Soviet Union in the wake of the Soviet invasion of Afghanistan in 1979 and during the Polish crisis of 1981. As a result, Tokyo missed important opportunities to improve relations with the USSR.

In the 1970s Soviet General Secretary Leonid Brezhnev indulged in the tempting prospect of building a profitable relationship with Japan. Key to this relationship was potential Japanese involvement in Siberian development projects.<sup>2</sup>

Several developments of the late 1960s-early 1970s underscored the urgency of investment in Siberia and the Far East for Soviet leaders. The strategic problem posed by China's military build-up along the length of the Sino-Soviet frontier was one. The Soviets matched and, indeed, surpassed the Chinese with a build-up on their side of the border, but a feeling of strategic vulnerability remained, since key Soviet populations centers and the railroad, which connected Siberia and the Far East with European Russia, were highly vulnerable to a Chinese attack. In 1974 Moscow announced the launch of a major construction project – the building of a second railroad across Siberia, the Baikal-Amur Mainline (BAM) – which would run approximately parallel but well to the north of the existing Trans-Siberian railroad. It was a massive feat, dubbed by the Soviets the project of the century, but it would subsequently be criticized as "forgotten and unnecessary, indeed, empty expense of resources and money."<sup>3</sup>



Trans-Siberian Railroad

Then, there was the lure of untapped resources beneath the Siberian permafrost. Increasing energy consumption in the USSR and Eastern Europe and the promise of export earnings, particularly at the time of a global oil crisis, encouraged the Soviet leadership to press forward with a broad investment program in Siberia and the Far East despite the enormous costs involved: the BAM alone required more than one billion rubles a year for at least 10 years. Japan was indispensable to the Kremlin's ambitious plans. At a Politburo meeting on January 10, 1974, which discussed and, in general terms, approved the construction of BAM, Japan was mentioned time and again as a source of credits and a market for Soviet resources, especially the rich coal and gas deposits of Yakutia, the oil of Tyumen, and the lumber of the vast Siberian taiga. The only person who spoke against bringing the Japanese in was the Central Committee Secretary Dmitrii Ustinov (who represented the defense establishment) but his voice was drowned out amid enthusiasm for Japanese cash and technology.<sup>4</sup>

Perhaps not to the extent imagined by Brezhnev and other Soviet policy makers, but there was in fact considerable long-standing Japanese interest in expanding economic ties with the Soviet Union.<sup>5</sup> For example, bilateral trade turnover increased in strides from a trickle of US\$38 million in 1958 to a not insubstantial US\$519 million in 1967, the year Japan became the Soviet Union's number one

trading partner in the West (outstripping the United States by a factor of five).<sup>6</sup> In 1965 Moscow and Tokyo agreed to set up national committees for business cooperation, which then met alternatively in the two capitals to discuss trade and investment projects. The Japanese were of course most interested in Soviet

resources. This dynamic did not depend on Gaimusho preferences, which is why agreements were being concluded, and Japanese money paid into Soviet coffers, even in the absence of any movement on the territorial problem.

### The Yakut saga

About halfway between the Lake of Baikal and the Sea of Okhotsk and some 400 kilometers north of the Sino-Russian border lies the town of Neryungri. Aside from its exotic name – “a grayling river” in the Evenki tongue – Neryungri is but another East Siberian town, an ugly child of Soviet urban planning. Until 1975 Neryungri was just an encampment in Southern Yakutia, a humble abode for enterprising geologists. Then, within only a few years, a new town was built from the ground up in the hastily cleared taiga; by the mid-1980s it boasted a population of over 80,000 people, many of whom serviced the coal industry of the South Yakut basin, one of the richest deposits of coking coal in the world.

Neryungri was conceived as a key component of the Siberian development strategy, a part of the grand BAM enterprise, a new industrial powerhouse like Donbass in the Ukraine and Magnitka in the Urals. In economic terms, Neryungri reflected a keen awareness in Moscow of the vast potential of Soviet involvement in the economic miracle of Northeast Asia. Japan was seen as the most important consumer of the mineral riches. Japan's involvement in the development of the South Yakut coal basin was a *sine qua non* of success for Soviet planners. Moscow had neither the money nor the technologies for setting up massive strip mines in the backwoods of Siberia, so a compensation agreement was devised to permit long-term Japanese investment. To be sure, the interest was mutual. The Japanese eyed the Neryungri coal with eager anticipation occasioned by impossibly high oil prices. In this view of things, political tussle over the northern territories was basically irrelevant: Soviet coal burned no less than American coal or, for that matter, Chinese coal. That is to say, Japanese economic relationships did not square with the narrow confines of Cold War logic.

A consortium of fifty-one Japanese companies, led by Nippon Steel Corporation, pooled resources in setting up the South Yakutsk Coal Development Co., and in 1974 the Exim Bank of Japan agreed to extend a hefty 450 million dollar credit to the Soviet Union to purchase the equipment (bulldozers, cranes and excavators) for the development of the coal fields. In return, Moscow undertook to supply Japan with some 104 million tons of coking coal over approximately twenty years beginning in 1979, or a projected 5% of total Japanese needs.<sup>7</sup> Soon, the ancient silence of the untouched taiga was torn apart by the roar of Japanese excavators ferociously biting into the permafrost to get at the rich coal deposits beneath. What forces could spoil this feast?

One of these forces was the climate. The Soviets had ordered ten mammoth excavators, designed in America by Marion Power Shovel Co. and built in Japan on license by the Sumitomo Corporation, at a cost of four million dollars each. The 6,000 volt monsters worked just fine in Australia and New Guinea, but they broke down at Neryungri and stood idle for months, as US and Japanese technicians attempted to repair the scoop buckets. One excavator burned; others suffered problems with their hydraulic hoses, which “burst as fast as they could be fixed” from the freezing temperatures. For that matter, Soviet-made equipment broke down faster still but, as *New York Times* correspondent Serge Schmemmann quipped: “Blaming capitalist equipment for delays seems to give officials here satisfaction, as if it provides international acceptable proof that the climate is, indeed, brutal.”<sup>8</sup>



Loading coal in Neryungri

The result of these woes was that excavation was seriously delayed and the promised supply of coal to Japan was disrupted. In the meantime, the costs of the Neryungri project mounted from an estimated 1.4 billion dollars in 1974 to 4.5 billion in 1978, in part because of brutal operating conditions, but also because of bad management decisions, waste and Soviet red tape.<sup>9</sup> So, Soviet officials were soon in Tokyo, asking for more money - \$90 million in 1977 and \$40 million in 1979.<sup>10</sup> The former amount was doled out, but it took about two years to agree on the \$40 million. The money was given in the end, but with a higher interest rate than Moscow hoped for, and on condition that it was the very last time the Soviets ask for money for Neryungri. In part this delay in financing was caused by suspension of Exim Bank credits in 1980 – punishment for the Soviet invasion of Afghanistan – but only in small part. For the most part, the Japanese were simply edgy about the additional expense. The project continued apace, while the economic sanctions lasted no more than half a year before being relaxed.<sup>11</sup>

Even with a new cash injection, the project was running years behind schedule. First, coking coal was not delivered until 1984<sup>12</sup>, and even then coal deliveries ran far short of the contracted amount.<sup>13</sup> It was difficult to make out what lay behind these failures. Some observers cited external constraints – disruption of supply of Polish coal

(because of miners' strikes) to Moscow's East European allies.<sup>14</sup> Others dwelt on perennial logistical problems, not least the Soviet inability to make the best of the railroad terminal on the Pacific – the port of Vostochnyi, also built with long-term Japanese credits. The port was supposed to have an automated coal terminal but somehow automation was slow in coming, and Soviet workers had to break up chunks of frozen coal by hand before it could be fed onto a sophisticated conveyer. In 1982 the coal terminal was working at only 30% of its intended capacity.<sup>15</sup>

All of these problems fed into mounting Japanese disappointment with Soviet business practices amid growing skepticism about over-dependence on the Soviet Union as a source of supplies.<sup>16</sup> In addition, the structure of the coal market in the Asia Pacific was irreversibly changing. Japan's steel industry had matured and began to lose competitive edge to other regional players, including South Korea and Taiwan. The focus of the Japanese steel producers' concerns shifted from assuring security and diversity of supply to shopping for cheaper coal to stay abreast of competitors.<sup>17</sup> For most of the 1980s, the international coal market was very much a buyers' market, characterized by falling prices and stiff competition. Moscow especially lost out to China – Chinese exports of coal to Japan expanded significantly while the Soviets battled nature in the pits of Neryungri.<sup>18</sup>

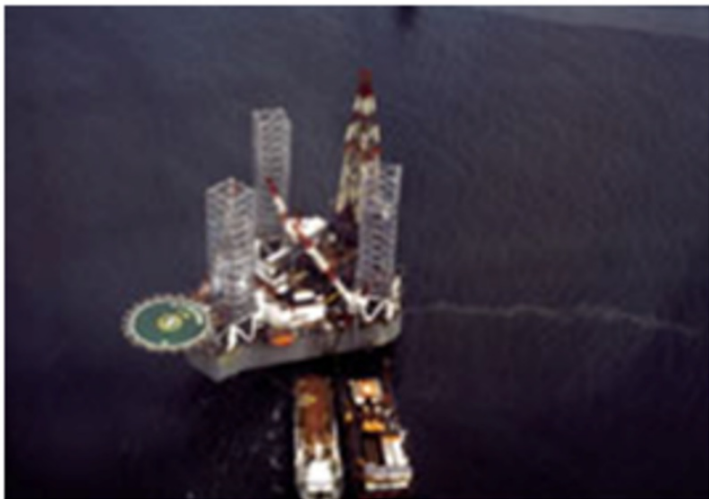
### The rise and fall of Sodeco's fortunes

Similar factors shaped Soviet-Japanese cooperation in the oil and gas sector. In 1975 Japan and the Soviets agreed on Japanese participation in oil and gas exploration on Sakhalin's continental shelf. The timing was telling: the 1973 oil crisis put the spotlight on Japan's energy dependence and underscored the need to diversify sources of supply. Seventeen Japanese companies pooled resources to form Sodeco, or Sakhalin Oil Development Co-operation Co, which partnered with the Soviets offering credits (initially \$100 million dollars) and equipment to drill exploration wells off the Sakhalin coast in return for a share of future oil and gas.<sup>19</sup> 44% of Sodeco was owned by the Japanese government (through Japan National Oil Corporation).<sup>20</sup> Joint exploration efforts soon paid off. In October 1977 Sodeco announced a major oil strike (Odoptu field), advertised at the time as possibly “the largest oil deposit in Asia.”<sup>21</sup> Two years later another major deposit was discovered a bit further south (Chaivo field). Encouraged by these developments, Sodeco came up with a new loan in 1979 – a further \$70 million dollars – extending the cooperation agreement with the Soviet Union for two more years.<sup>22</sup>

In the midst of all the excitement the US imposed economic sanctions against the USSR. This was bad news for Sodeco, for although it was mainly a Japanese consortium (with small participation by the US-based Gulf Oil Corporation), the exploration effort hinged on the availability of US technology now barred by sanctions.<sup>23</sup> The Japanese government lobbied Washington to exempt Sodeco from export restrictions. Foreign Minister Okita Saburo touched on

the question during his meeting with Secretary of State Cyrus Vance on March 20, 1980. He said that suspension of existing projects "would be a gift to the USSR." Pointing to Japan's relative military vulnerability vis-à-vis the Soviet Union, and her dependence on Soviet resources, Okita emphasized that raw materials and energy projects were "a vital necessity" for the Japanese, so even if Tokyo did not extend new credits, current projects had to continue.<sup>24</sup> Publicly, Okita's reluctance was spun as nothing less than a far-sighted policy to keep the Middle East out of Soviet hands on the premise that if the Soviets had access to their own oil, with Japanese help, they would abstain from oil-driven expansionism overseas.<sup>25</sup>

Okita's pleas were sympathetically received. Undersecretary Richard Cooper could not promise this would apply to all of Japan's existing projects with the USSR, but he did indicate that the US would exempt Sodeco from export restrictions. Cooper made a distinction between technologies which allowed the Soviets to increase oil output (these could be exported) and technologies which allowed the Soviets to create such technologies on their own (these would be banned).<sup>26</sup> The Sakhalin project continued apace and by mid-1981 Sodeco and the Soviet government drew up tentative plans to begin commercial production by 1988.<sup>27</sup>



**Sodeco rig off Sakhalin**

extent that an exemption was considered, the brightest idea on the table was to extract, as a *quid pro quo*, Japanese loans for the Alaskan Gas Pipeline to the tune of US\$5 billion.<sup>31</sup> It is doubtful that Japanese would have fallen for such extortion, because the proposed amount exceeded Sodeco's investments in Sakhalin (including potential lost profit) by a factor of ten. However, it is noteworthy that the idea was even seriously entertained. But the Reagan Administration did not have the opportunity to compromise principles for cash: by late April it became clear that the Alaskan Pipeline was being shelved until better times.<sup>32</sup>

By May 18, the National Security Council made the preliminary decision to deny Sodeco's request for exemption. On the following day relevant explanations were forwarded to the State Department for transmission to the US Ambassador in Japan, Mike Mansfield.<sup>33</sup> The reasons were as follows. The Soviets were unlikely to cancel the contract with Sodeco, because they needed the consortium to develop the fields, which would cost 2-3 billion dollars. Even if they did cancel the contract, and opted to sell oil and gas on the open market, it is unlikely that they could find any customers in the area other than Japan. Sodeco was anyhow a suspicious company. The NSC gathered intelligence about its involvement in covert electronic surveillance ship purchases for the Soviets in Norway,<sup>34</sup> as well as other illicit activities – "a rotten chain of deception and lies engaged in for years by Sodeco... which continues unabated."<sup>35</sup>

The decision to give Sodeco a cold shoulder was bad news for Mansfield, who had personally advocated granting an exemption. In a May 6 cable to the State Department he had spelled out his reasoning. Recalling how Japan had followed the US lead on sanctions with regard to Iran and Afghanistan, and supported the UK in its conflict in the Falklands, the Ambassador argued that the Americans had to show "special consideration" for Sodeco, which, he predicted, "will be amply repaid in the months ahead." "If we are unable to find a way to permit this eight-year-old project to continue, we will make it difficult for the Prime Minister to justify continued close cooperation with the U.S."<sup>36</sup> On May 20, Mansfield forwarded Prime Minister Suzuki's personal appeal to Ronald Reagan to relent on Sodeco. (Suzuki had already raised the matter once, in a meeting with Vice President George Bush on April 25.) In asking for an exception, Suzuki pointed out how loyal Japan had been in its general approach to the USSR, compared to America's West European allies.<sup>37</sup> All to no avail.

On June 4, 1982, Mansfield reported that he was having a hard time persuading the Japanese government that Sodeco restrictions were necessary. Japanese officials maintained that their concern "does not center on the fate of Sodeco," although there was a distinct possibility that Moscow might pocket the Japanese money, or use the threat of doing so to extract concessions from the consortium. The matter at stake was the public perception in Japan that the country suffered more from US sanctions than the Soviet Union, and this in turn endangered public tolerance for sustaining US-Japanese cooperation on anti-Soviet sanctions in the first place.<sup>38</sup> Mansfield concluded in his report to the State Department, "we [the US] can ill afford to disregard the most forcefully presented concerns of our allies, particularly when their support is vital to the success of our larger efforts."<sup>39</sup>

The Ambassador's advice fell on deaf ears. Prime Minister Suzuki, who had offered support for Reagan's line on credit restrictions for the USSR at the otherwise anti-Reaganite Versailles G7 summit in June in the hope of reciprocal flexibility on Sakhalin, walked away empty-handed.<sup>40</sup> For another couple of weeks the Japanese still entertained a quiet hope that Reagan would relent. Sodeco's rig, which was supposed to take part in that summer's exploration work, was kept on stand-by (at the supposed cost of at least US\$40,000 daily).<sup>41</sup> As late as June 18 Abe Shintaro, the Minister for International Trade and Industry, appealed to Mansfield to influence the US Government on the Sodeco issue – in what, the Ambassador noted, was a "rare departure from GOJ [Government of Japan] custom." "I must now emphasize," cabled Mansfield to unquestionable irritation in Washington, "that the issue has reached a critical point. If the June 18 [NSC] meeting is unable to approve the required export licenses, the Japanese reaction will be negative and we will have greater difficulty in obtaining Japanese support for our economic policies."<sup>42</sup>

The final NSC decision was taken on June 18. There were no exemptions because, as Reagan scribbled in his diary that day, "there hadn't been the slightest move on the Soviets part to change their evil ways."<sup>43</sup> On the same day the decision was communicated to Ambassador Okawara Yoshio on June 18. Okawara responded that "the US decision would be regarded in Japan as penalizing Japan rather than the Soviets, and that there would be a bad reaction, inasmuch as it would seem that we were punishing a country that had cooperated in our sanction policies."<sup>44</sup> Indeed, for several weeks after the decision was publically announced, the Japanese government issued angry protest letters, and the media wrote of "disbelief" and "dismay" in Tokyo over Reagan's failure to grant exemption to Sodeco.<sup>45</sup>

However, it soon transpired that the Soviets were not about to cancel Sodeco's contract. In fact, according to US intelligence, the Chairman of the Soviet

But the Reagan administration imposed new sanctions on the USSR, this time for Moscow's role in the Polish crackdown. In February 1982 export restrictions were extended to the Sakhalin project, no doubt to the great annoyance of Sodeco's management (the consortium had just agreed to extend exploration off Sakhalin for another year).<sup>28</sup> A mini-drama unfolded behind the façade of allied solidarity.

On March 30, 1982 Sodeco President Kobayashi Sadao sent a strongly-worded letter to Donald Gregg, a former CIA agent, by then in charge of intelligence at Reagan's National Security Council. In the letter, Kobayashi claimed that denying the export license to Sodeco would give the Soviets an opportunity to abrogate the 1975 General Agreement, when matters had come so close to the development phase. "This will result in great loss to Japan, and great benefits to the Soviet Union." The Soviets, Kobayashi claimed, would not have to repay the Japanese investments in the project (most of which, incidentally, came from the Japanese government), and would simply sell the oil and gas, identified with Japanese help, on the open market for massive profits. Kobayashi said he would be in the United States for the following several weeks to try to find a solution to the problem.<sup>29</sup>

Kobayashi's appeal prompted an internal discussion at the NSC. There was little sympathy this time for Sodeco's plight.<sup>30</sup> To the

State Planning Committee Nikolai Baibakov had told Sodeco management in late May 1982 that Moscow would not abrogate the 1975 Agreement. This was not surprising because, as the NSC experts accurately predicted, the Soviets were desperate for Japanese investment in Sakhalin, and there was no one else on the horizon who could possibly replace Sodeco. Interestingly, the company did not inform the Japanese government about these Soviet assurances for fear that such information would make Tokyo more lukewarm in pressing the Americans for an exemption.<sup>46</sup>

Japanese-US disagreements over Sodeco were part of a broader pattern: although Tokyo reluctantly endorsed punitive measures against the Soviet Union – both after Afghanistan and after the Polish events – the Japanese played it safe and were especially careful not to get ahead of US allies in Western Europe in curbing economic ties with the Soviets. Practical measures – cancellation of mutual visits and a temporary freeze on new credits to the Soviet government – were designed to have as limited an effect as possible on the existing Japanese economic projects in the USSR. When real economic interests were involved – as in the case of Sodeco, which ended up losing a year of exploration in the wake of US sanctions – Tokyo tactfully but insistently pressured the Americans to make exceptions. Reagan's failure to do so predictably irritated Prime Minister Suzuki and contributed to US-Japanese tensions over trade and economic policy.

Sodeco's oil and gas exploration off the coast of Sakhalin soon came to a complete halt, and (after the Soviets limped along for a little longer through their own exploration efforts) the whole project was put on ice. This had nothing to do with political tensions in Soviet-Japanese relations at the height of the "Second Cold War," much less with the perennial squabbling over the Kurile Islands. It was not the Japanese sanctions that derailed the multi-million dollar project or even the more menacing American sanctions. Rather, with oil and gas, much as with coal, changes in the global energy markets and in the structure of Japan's economic needs, undercut the project's profitability. Japan was "facing an oversupply of LNG" and did not need Sakhalin's gas at all.

Japanese business circles simply lost interest.

There were three main reasons for this reversal in Sodeco's fortunes: energy conservation, Japan's changing industrial structure, and the resource glut. Energy conservation became a key government priority after the 1973 oil crisis. With the adoption of the 1979 Energy Conservation Law, various measures were introduced to lower energy consumption, such as low-interest loans and tax write-offs to companies for investing in energy conservation equipment, and public financing of housing insulation. The government also began to invest heavily in alternative energy research with the launch of the Moonlight Project (development of high-efficiency heat pumps and fuel-cell technologies) and the Sunlight Project (solar and geothermal power).<sup>47</sup> There was also increased reliance on nuclear power generation; in the decade between 1979 and 1989, the number of Japanese nuclear plants jumped from 21 to 37.<sup>48</sup> The 1979 oil crisis gave a renewed impetus to energy conservation.

The changing structure of Japanese industry was also related to high energy prices in the 1970s – early 1980s. Put simply, this change entailed a move away from basic materials industry (iron and steel, non-ferrous metals, cement, certain chemicals and textiles) towards secondary industry (electronics, transport, etc.).<sup>49</sup> A number of basic industries, e.g. aluminum and petrochemicals, lost competitive edge to cheaper imports, leading to drastic curtailment of excess capacity in the early 1980s.<sup>50</sup> In practice, this meant that plants closed and energy demands were significantly reduced. Between 1980 and 1991 Japan's energy intensity registered a 19.1% decrease, surpassed in this respect only by West Germany (20.3%). But, factoring in Japan's dramatic GDP growth over the same period, it easily became the least energy-intensive economy among the developed industrial nations of the West.<sup>51</sup> The implications of these developments for the Sakhalin project were spelled out by MITI's deputy director for trade policy Oriyama Jun in February 1985: "The project was initiated 10 years ago when Japan was facing a severe energy problem... The industrial structure in Japan has slowly changed and the growth of need for natural resources has declined."<sup>52</sup>

The above two factors are hugely important but they do not fully explain Sodeco's difficulties in the mid-1980s. There was another, more immediate, reason for Japanese loss of interest in the Sakhalin project. The problem was connected with the government's decision, in the wake of the first oil crisis, to procure more natural gas as a part of general resource diversification. At the time, Sakhalin's gas prospects seemed very promising, and although initial exploration identified oil as well as natural gas deposits, much of the discussion between Sodeco and the Soviet government at the turn of the decade centered on supplying natural gas to Japan. Early reports cited the figure of 3 million tons of liquefied natural gas (LNG), to be supplied annually to Japan for twenty years.

Unfortunately for Sodeco, Japanese companies had signed too many LNG contracts in the 1970s, contributing to a natural gas glut in Japan just as Sodeco peddled plans for long-term supply of Soviet gas. Protracted negotiations ensued but by the mid-1980s it was clear that Sodeco was having a hard time selling Sakhalin to Japanese consumers. Vladimir Sushkov, Sodeco's partner in the Soviet government (who was incidentally soon jailed for 13 years for taking massive bribes from Japanese and other foreign companies, including Sodeco), recalled difficult negotiations in Tokyo in 1985-86: "Because of the energy crisis the Japanese signed so many contracts for purchase of natural gas that supply exceeded demand. For us, this delay was a big problem, because the Japanese bank continued to add interest to the credit we had obtained. I gave a memorandum to the minister [of international trade and industry], asking to stop the accrual of interest, since Japan has not carried out its obligation to purchase gas."<sup>53</sup>

The problem was bigger than accrued interest alone, cutting, as it were, deep into the fabric of Soviet plans for economic cooperation with Japan. The massive Sakhalin oil and gas project, if implemented, would have meant an unprecedented level of Japanese investment in the Soviet economy (in the 1980s, the figure of 4 billion dollars was cited – and this was a conservative estimate given what it took to launch the project in its latter-day reincarnation as the Sakhalin-1 Production Sharing Agreement). The project only made sense if Japan was part of it; otherwise, why even bother? As Deputy Foreign Minister Mikhail Kapitsa put it in September 1985, in exasperation over Tokyo's foot-dragging, "it is not in the immediate interest of the Soviet Union to have such a big investment in the Far East."<sup>54</sup> For the Soviets, this project was a bridge to the lucrative energy markets of East Asia. But for the time being, ambitious plans were abandoned to the detriment of Soviet-Japanese economic cooperation, which hinged on precisely such projects.

### **What's in the pipeline?**

The early 1980s witnessed a monumental struggle of titans: Caterpillar Tractors of the USA and Komatsu Industries of Japan. Caterpillar lost out as Komatsu made steady gains at the expense of its archrival on the international market. Reliable and technologically advanced – but above all often cheaper than the US-made alternatives – Komatsu tractors, bulldozers and pipe-layers were winning contracts from Latin America to Africa to Soviet Siberia. But Caterpillar had to fight on two fronts: squeezed by the Japanese competition, it also suffered from erratic policies of the Reagan Administration, which in the end cost the company dearly, when in 1982 it had to abandon what could have been an exceedingly lucrative contract – provision of equipment for a pipeline in the USSR. Komatsu snatched up the deal.

Japan was only a secondary player in the Soviet pipeline row: Tokyo's quiet machinations could almost pass for loyalty in comparison with the rebellion of Reagan's European allies.<sup>55</sup> Serious troubles did not begin until several months into the Reagan Administration. The Soviets had previously announced their intention to build a massive 5,000 kilometer pipeline (with Western money and technology), which would bring an estimated 30 billion cubic meters of gas annually to Western European customers from the Soviet Far North.<sup>56</sup> Reagan opposed the idea on several counts: the project would permit the Soviets to obtain Western technology (and so strengthen Soviet capabilities); it would bring considerable profits to Soviet coffers (early estimates suggested 10 billion dollars a year from gas exports); and it would make Western Europe unduly dependent on the Soviets for their natural resources.<sup>57</sup>

What was in the deal for the Europeans? Gas, of course. It was widely believed that, with the pipeline in operation, West Europe would import as much as 25-35% of its gas supplies from the USSR by 1990.<sup>58</sup> But the real attractiveness of the project was that in order to construct the pipeline the Soviets would import Western equipment – including steel pipes, pipe-layers, turbines and compressor stations. The deal was potentially worth \$14 billion dollars at a time when many Western firms, hard hit by recession, were barely surviving. Japanese companies were eyeing the market with anticipation of a windfall: steel exporters (Nippon Steel, Nippon Kokan, Sumimoto, Kawasaki Steel) and equipment makers (Hitachi-Marubeni, Komatsu, Mitsubishi and others) stood to profit. Keidanren and the Reagan Administration did not see eye-to-eye on the pipeline project; the real question was how the Japanese government would

handle likely pressure from Washington to bring business circles to heel in the economic cold war.

It was no easy matter. The Soviets were excellent negotiators and shopped around for the best deal. Japanese companies competed against the Germans, the French, the British, the Italians, and the Americans. Tokyo put on an appearance of discouraging active Japanese participation in the scramble for contracts, mainly to impress the United States. After Japanese companies were left out of the general contracting for the most lucrative deals – provision of compressor stations for the pipeline – the Americans were confidentially informed that the Japanese government had taken a “hard stance” with their firms, telling them that they were “not to take the lead” in what was essentially a “European project.”<sup>59</sup> MITI officials lamented that Japan had lost lucrative contracts because it had been “dumb honest” in supporting US sanctions.<sup>60</sup> At every appropriate opportunity the Americans were reminded that Japan had sacrificed more than the Western Europeans by following the US lead on export credits, so that Washington ostensibly had no reason to complain when the Japanese asked for leeway in a few cases where their interests were most strongly affected, as with the sale of Komatsu equipment for the same pipeline project.

Whether the Japanese government had any hand in the failure of Japanese firms to grab a larger share of the pipeline contracts cannot be determined with certainty. As late as April 1981 Hitachi was poised to win a decent share of compressor contracts – at least it was so reported at the time in the Japanese press.<sup>61</sup> Other Japanese suppliers were also in the race, as were German, French and Italian firms led by Mannesmann, CreusotLoire and Nuovo Pignone. But Hitachi was optimistic, especially after the Reagan Administration signaled agreement to allow General Electric to supply indispensable components for the compressors.<sup>62</sup> Faces were all the more sour in Tokyo after it was announced in October that Hitachi had lost out.<sup>63</sup> Yet the Japanese lost out not because Tokyo took a “hard stance” but because Moscow drove a hard bargain. The Europeans out-priced their Japanese rivals in the mega-deal.

Where Hitachi failed, Komatsu scored big time. The Japanese maker of moving equipment was a long-time Soviet supplier. The company was a driving force behind the 1968 forestry agreement – a deal, renewed in 1974 and then again in 1981 – to sell bulldozers and other machines to the USSR in return for logs and timber from the Sikhote Alin mountain range in the Far East.<sup>64</sup> In the pipeline negotiations Komatsu competed chiefly against Caterpillar, with mixed results, for by 1981 Moscow had decided to spread the risks and ordered pipe-layers from both companies. Caterpillar landed an \$80 million deal to sell 200 pipe-layers for the gas pipeline – a deal approved by the outgoing Carter Administration – but soon the order was halved. Still, Caterpillar officials optimistically predicted that sales of pipeline-related equipment to the USSR would top a billion dollars and create two thousand jobs for the company for five years.<sup>65</sup>

But the hawks in the Reagan Administration – especially Defense Secretary Caspar Weinberger – were determined to prevent Caterpillar from selling on the Soviet market. A rift emerged between these hardliners and more cautious voices like that of the Secretary of State Alexander Haig’s, who opposed stringent sanctions because they would be a hard sell with US allies, and prejudice US commercial interests. “On the pipe-layers, the Japanese are going to sell them anyway” – argued Haig at the National Security Council meeting on July 6, 1981, but he was doggedly opposed by Weinberger who slammed the Japanese for subsidizing Komatsu business because “they don’t have to pay for their own defense.”<sup>66</sup> In a paper dated July 8, 1981, Weinberger proposed to use US leverage to dissuade Komatsu from profiting from Caterpillar’s woes; incentives ironically included US agreement to Sodeco operations in Sakhalin (as Komatsu would eventually stand to profit from oil and gas extraction there), as well as the lure of the Alaskan natural gas pipeline – this would entail “limiting” Komatsu’s “competitive opportunities” in Alaska should it go ahead with the Siberian gas pipeline.<sup>67</sup>

Reagan raised the issue during his conversations with Prime Minister Suzuki Zenko on the sidelines of the G7 summit in Ottawa (July 1981); supposedly, Suzuki said “he would look into it.”<sup>68</sup> It was even rumored at the time that after his return from Ottawa Suzuki told Komatsu that their deal with the Soviets would have to be put “on hold” until further notice.<sup>69</sup> However, soon the Japanese (through the Foreign Minister) informed Washington that they would not prevent Komatsu from selling the pipeline equipment.<sup>70</sup> In fact, by mid-July press reports surfaced that Komatsu was poised to grab Caterpillar’s contracts because the Soviets were tired of waiting for the US to approve the sale.<sup>71</sup> These developments spurred the Administration to approve the sale of a hundred Caterpillars by the end of July.<sup>72</sup> Then, on December 10, 1981, the US Commerce Department granted an export license for another set of pipe-layers, again, allegedly, for some other, unidentified, pipeline, though in reality no one could tell for sure how these would be used.<sup>73</sup> The hardliners were beaten back – but only temporarily.

The Polish crackdown tipped the balance: Caterpillar licenses were revoked days after their long-delayed approval by the Commerce Department. In 1982 Reagan fought an uphill battle to force the allies to follow suit, even though Haig had foreseen that the allies “will tell us to go to hell.”<sup>74</sup> Haig resigned but Reagan eventually relented. The Japanese played a careful game for most of that difficult year. Komatsu announced major sales of pipeline equipment in February 1982, but Tokyo claimed this was for an earlier contract, signed before the Polish events of December 1981. The US media speculated that Komatsu cashed in on the Caterpillar debacle, and that the move “effectively [undercut] Reagan administration sanctions.”<sup>75</sup>

In any case, when Abe Shintaro, the Minister for International Trade and Industry, turned up in Washington in January 1982, Haig pressed him hard on the pipe-layers issue: “recognizing that there were existing contracts, we had to look to the future from a strategic point of view.” But Abe said nothing could be done about Komatsu contracts; the best Tokyo could do was to “give guidance to companies to exercise self-restraint in the future.”<sup>76</sup>

It is important to look at these issues from a broader perspective. In the Komatsu case the Japanese were only doing what everyone else was doing – defying heavy-handed American pressure. Indeed, the Japanese were not as brazen in this defiance as Western Europe, particularly after Reagan extended economic sanctions against the USSR in June 1982, targeting foreign companies producing equipment on American licenses. The French showed the way by ordering their firms to ignore the White House and honor the Soviet contracts; others more or less followed suit. Japan, too, became more critical of the US position, but Suzuki never allowed himself the sort of barely-disguised disdain for Reagan occasionally shown by the likes of Francois Mitterrand and Helmut Schmidt. The US Bureau of Intelligence and Research produced an apt summary of the Japanese game plan: “Sanctions may be a relatively impermanent factor in [Soviet-Japanese] relations; Japan will never get ahead of the US on this issue and will be cautious about being too far ahead of Western Europe, although Tokyo will not necessarily aim at bringing up the rear.”<sup>77</sup>

It is quite clear that Tokyo attempted to cooperate with the tough policies of the Reagan Administration despite the fact that Japanese companies were estimated to lose \$1 billion dollars worth of Soviet contracts because of sanctions. No doubt, policy makers in Tokyo were genuinely concerned that open European defiance of Reagan undercut Western solidarity, but they were also concerned that Reagan’s policy was fundamentally misguided, not only his policy with respect to the USSR and its allies, but also his policy towards the global South. As Foreign Minister Sakurachi Yoshio put it in a meeting with his UK counterpart Francis Pym on September 3, 1982, Reagan’s policy was “to attempt to improve the world economy while isolating both the Eastern bloc and the countries of the South. An alternative, and by implication better strategy, would be to attempt to westernize the Soviet Union and to improve the lot of the South.”<sup>78</sup> This was a very rare, guarded comment – about as far as the Japanese were willing to go (even in private) in their criticism of Reagan’s muddle-headed policies.

## Conclusion

In the period between 1980 and 1982 Soviet-Japanese economic relations reached their peak but thereafter stagnated and even declined to dismal lows by the early 1990s, despite considerable improvement of the overall political climate in Soviet-Japanese relations. It is important to understand what happened. It is not uncommon to come across claims that the unhappy state of economic relations between Moscow and Tokyo was an outcome of the Japanese “traditional” policy of “*seikei fukabun*” – inseparability of politics and economics. This approach links the lack of progress on the economic front with the stalemated territorial problem, and implies that until Japan had the islands back, there was no hope of improving bilateral economic ties. This view was of course beneficial to the Gaimusho, anti-Soviet bastion that it was. *Seikei fukabun* was a Foreign Ministry-orchestrated policy, geared towards extracting concessions on the “Northern Territories” from the Soviets who would presumably be desperate enough for Japanese trade and investment that they would eventually yield on the territorial issue.

It is quite interesting that Moscow actually bought the Gaimusho's interpretation, if in a somewhat perverse form. As political relations nosedived in the early 1980s, the Kremlin used trade and investment prospects to blunt Japanese hostility.<sup>79</sup> Japan's attitude to the latest round of US sanctions was discussed at the Politburo on September 9, 1982. Gromyko noted: "The Japanese, despite the US President's sanctions, show their willingness to maintain their relations with our country at an appropriate level." Prime Minister Nikolai Tikhonov immediately proposed to bait Tokyo with economic projects. He was seconded by Mikhail Gorbachev who thought that the Japanese were "very interested" in bolstering economic relations with the USSR.<sup>80</sup> As a result, Moscow redoubled efforts at attracting a new round of Japanese investments in 1982-83. US intelligence estimates rightly suggested at the time that the Kremlin was hoping "to use the demonstrated advantages of economic ties to mute – if not eliminate – Soviet-Japanese political differences over the long run and to forestall further intensification of political conflict between the two nations in the short term."<sup>81</sup> It was *seikei fukabun* in reverse.

Hopes were pinned in particular on the visit of Japanese businessmen to the USSR in February 1983. The 252-member delegation was led by the President of the Japanese Chamber of Commerce and Industry Nagano Shigeo and included executives of major Japanese trading houses, manufacturers and banks. The Soviets besieged the delegation with offers of Siberian development partnerships, including mining of copper deposits at Udokan and asbestos at Molodezhnoe, pulp and wood chips processing, expansion of the port of Vostochnyi, and a steel mill in the Far East.<sup>82</sup> All of these had been on the Soviet agenda for years. But there was precious little progress. Only Komatsu made deals on the sidelines of the business forum, selling hundreds of pipe-layers with credit financing obtained through private Western banks. Only a few members of the business mission knew about this deal, negotiated in complete secrecy through commercial backchannels.<sup>83</sup>

The Nagano mission failed to reverse the declining trends of Soviet-Japanese economic relations. There is no question that political uncertainties, credit restrictions and curbs on technology exports since Japan's adherence to post-Afghanistan sanctions, played a role in cooling Keidanren's interest in new business deals with the Soviets. But by far the most important factor in the stagnation of economic relations was Japan's declining need for Soviet resources. Siberian development projects, which were central to the dramatic expansion of Soviet-Japanese trade in the 1970s, lost much of their attractiveness in the 1980s. Reversed fortunes of the South Yakut coal project, and the Sakhalin oil and gas project help to underscore this point. For the same reason, persistent Soviet efforts to sell Tyumen oil and Yakut gas to the Japanese never went far beyond the drawing board. Even relatively successful projects, such as the three forestry development agreements, stalled because of declining need for timber in Japan, and competition from US exporters.<sup>84</sup>

Some companies – like Komatsu – prospered, and we have seen that the Japanese government, far from forcing these to close the shop in a Reaganite fashion, actually went out of the way to assure that their business deals went through. In this respect, there was a remarkable willingness in Tokyo to separate politics from economics, and even the Gaimusho played an important role in finding loopholes in the sanctions regime to make life easier for Japanese companies. The Prime Minister was no doubt under pressure from some of these companies to facilitate economic exchange with the USSR, but on the whole domestic enthusiasm for intensified economic relations with the northern neighbor was not particularly strong, permitting the Japanese government greater flexibility to cautiously tread the middle ground between the US and its reluctant allies.

All of the aforesaid suggests two important conclusions. First, the ups and downs of Soviet economic relations in the 1970s – 1980s had little to do with the territorial problem. Trade boomed in the 1970s, and declined in the 1980s in spite of, not because of, *seikei fukabun*. In other words, even if Brezhnev, in a burst of magnanimity, surrendered the islands to the Japanese in 1973, or even if that happened in 1983 under Andropov, this would have hardly produced an economic bonanza for the USSR. Political relations would have improved but the basic realities of the Japanese economy would remain the same. Japan would not have required more steel, or coal, or gas, or timber if it had the islands back. Soviet red tape, incompetence and inefficiency, which did so much to dampen Japanese enthusiasm for Siberian development after the bitter experience of the 1970s, would not have dissipated overnight if the territorial problem were suddenly eliminated from the list of mutual grievances in Soviet-Japanese relations. *Seikei fukabun*'s implied promise – the proverbial carrot of economic investment – was after all hollow.

Japan's not-entirely-convincing performance on economic sanctions against the USSR points to another observation. Imposition of economic sanctions likewise had nothing to do with the territorial problem. Even with the problem resolved, Japan would have been hard pressed not to follow the US lead in curbing credits for Soviet projects. This was because Japan was a key player, in fact, the cornerstone, of the US system of alliances in Asia, and it could not opt out of joint actions with Washington in the wake of Afghanistan and the Polish crackdown. But even allied sentiments and real security concerns were of less consequence in the big picture than economic forces. Security concerns could – and did – lessen with time, but the basic shift in Japan towards a post-industrial economy was irreversible.

The Kremlin's experience with Japan – in particular, Moscow's frustration with Suzuki's and Nakasone's anti-Soviet stance – made it appear that economic relations were bad because pro-American hardliners in Tokyo were sabotaging them, using the territorial conflict as a useful pretext. The most appropriate strategy in the circumstances – so it seemed from Moscow in the early 1980s – was to continue to appeal to Japanese business interests in the hope that the prospect of widening economic relations with the USSR would eventually pave the way to political changes in Tokyo, and the thorny territorial issue would somehow fade away. The idea that the Soviet economy had lost its luster for the Japanese took years to register in the minds of policy makers. Gorbachev was therefore slow to recognize that the territorial problem was not in fact an important obstacle in its own right. When he did, it was too late to do anything about it.

By the late 1980s, the Japanese Foreign Ministry, in apparent recognition of the fallacies of *seikei fukabun*, announced a new policy, that of *balanced expansion*, claiming that development in economic relations would take place gradually, alongside progress on the territorial issue. However, arguably, *balanced expansion* was simply a watered-down version of *seikei fukabun*. The solution of the territorial problem remained the key priority for Japan, as it remains to this day. Even today, Tokyo pursues *seikei fukabun* in disguise, for instance, in vetoing joint economic projects in the Southern Kuriles. As recently as November 2009, the Hatoyama Administration publically referred to Russia's "illegal occupation" of the islands, triggering an entirely predictable angry Russian response. In this connection, it is interesting to note that nowadays Moscow pointedly downplays prospects of economic cooperation with Japan, seeing China (at least for now) as a more promising economic partner in the Far East.<sup>85</sup>

The premise behind *seikei fukabun* was that Russia needed Japan more than the other way around. If that policy proved unworkable in the 1980s, then how much more so now! Japan, however, still has not fully recovered from the myth that its economic edge gives Tokyo all the cards in political negotiations with its neighbors. By the same token, the assumption behind recent Russian backtracking from negotiations with Japan has been that Japan needs Russia more than the other way around. That assumption, too, had proved unworkable before, as this article demonstrates. If history has taught us anything, it is that unwillingness to talk and bloated assessment of one's own prowess, are unlikely to lead to effective dialogue. This is the kind of dialogue both Russia and Japan need at a time of dramatic changes in Asia Pacific, occasioned by the rise of China.

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## Notes

<sup>1</sup> For an overview of the 1973 Brezhnev-Tanaka summit see Tsuyoshi Hasegawa, *Northern Territories Dispute and Russo-Japanese Relations*, Vol. 1 (Berkeley, CA : University of California, International and Area Studies, 1998), pp. 151-157.

<sup>2</sup> See, for example, "Ob uskorennom razvitii proizvodstvennykh sil i zaselenii Dal'nego Vostoka" (letter by Party secretaries of certain regions of Siberia and the Far East to the Council of Ministers, no earlier than 1965), Sakhalin Center for Documentation on Current History, Yuzhno-Sakhalinsk, Russia (STsDNI): fond 4, opis' 83, delo 30, listy 148-155. The letter contains important statistics about chronic under-development of the Far North and the Far East.

<sup>3</sup> Cited in Paul R. Josephson, "'Projects of the Century' in Soviet history: Large-Scale Technologies from Lenin to Gorbachev," *Technology and Culture*, Vol. 36, No. 3 (July 1995), p. 555.

<sup>4</sup> Record of the Politburo meeting, January 10, 1974. The Library of Congress. Volkogonov collection. Reel 16, containers 23-24. See also CIA, "Intelligence Report: Prospects for Continued Soviet Exports of Petroleum," September 1970. Declassified in accordance with the Freedom of Information Act and available through the CIA FOIA online documents archive.

<sup>5</sup> For a very useful overview of Soviet-Japanese economic ties, see David I. Hitchcock Jr., "Joint development of Siberia: decision-making in Japanese-Soviet relations," *Asian Survey*, Vol. 11, No. 3 (March 1971), pp. 279-300.

<sup>6</sup> CIA, "Soviet foreign trade: policy, performance, and prospects," May 1969. Declassified in accordance with the Freedom of Information Act and available through the CIA FOIA online documents archive.

<sup>7</sup> CIA, "Japanese-Soviet negotiation on Siberian economic development," March 27, 1975. Declassified in accordance with the Freedom of Information Act and available through the CIA FOIA online documents archive.

<sup>8</sup> Serge Schmemmann, "Challenge of Siberia: conquering riches and cold," *The New York Times*, January 26, 1982, p. A2; Kevin Close, "Battling permafrost for Siberian coal," *The Washington Post*, April 9, 1979, p. A21; "Siberian project delayed again," *Coal Week International*, Vol. 4, No. 9 (March 2, 1983), p. 2; also, Telegram from the US Embassy in Moscow to the Secretary of State, November 25, 1981, Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00923. Here, and elsewhere, I relied on the LexisNexis database for all cited newspaper sources.

<sup>9</sup> Kevin Close, "Battling permafrost for Siberian coal," *The Washington Post*, April 9, 1979, p. A21.

<sup>10</sup> CIA, "Japan's changing relations with China and the USSR," February 1, 1981. Declassified in accordance with the Freedom of Information Act and available through the CIA FOIA online documents archive.

<sup>11</sup> William Chapman, "Japanese stop Soviet credits; joint development projects affected," *The Washington Post*, February 8, 1980, p. A1; William Chapman, "Japanese relaxing economic sanctions against Soviet Union," *The Washington Post*, September 10, 1980, p. A26. "After four years of talks....," *Coal Week International*, Vol. 2, No. 3 (January 21, 1981), p. 3.

<sup>12</sup> Victor L. Mote, "The South Yakutian territorial production complex" in Allan Rodgers (ed.), *The Soviet Far East: geographical perspective on development* (London: Routledge, 1990), p. 174.

<sup>13</sup> "USSR notifies Japan of inability to supply Siberian coal," *BBC Summary of World Broadcasts*, February 19, 1981.

<sup>14</sup> "The Japanese steel industry has made representations....," *Japanese Economic Newswire*, June 1, 1981.

<sup>15</sup> "Soviet port project faulted," *Engineering News-record*, January 21, 1982, p. 61.

<sup>16</sup> "The Japanese steel industry has made representations....," *Japanese Economic Newswire*, June 1, 1981.

<sup>17</sup> Hui-Shung Chang, "Coking coal procurement policies of the Japanese steel mills: changes and implications," *Resources Policy*, Vol. 23, Issue 3 (September 1997), pp. 125-135.

<sup>18</sup> For more on Sino-Japanese cooperation in coal see Elspeth Thomson, *The Chinese coal industry: an economic history* (London: Routledge Curzon, 2003), pp. 128-129.

<sup>19</sup> "Japan and USSR sign \$100-million credit agreement....," *The New York Times*, January 30, 1975, p. 55. For a concise review of Sodeco's activities in the 1970s and the 1980s see Michael J. Bradshaw, "Going global: The political economy of oil and gas development offshore of Sakhalin," *Cambridge Review of International Affairs*, Vol. 12, No. 1 (1998), pp. 151-153.

<sup>20</sup> "Sakhalin oil project: present status," (undated, spring of 1982). Ronald Reagan Presidential Library, Simi Valley, CA (RRPL): NSC Executive Secretariat, Japan 4/10/82-4/27/82.

<sup>21</sup> "A Japanese-Soviet joint oil company....," *The Associated Press*, October 12, 1977.

<sup>22</sup> "Japan's Sakhalin Oil Development Co. Ltd. signed an agreement....," *The Associated Press*, June 6, 1979.

<sup>23</sup> Three US firms were involved. "Japan renewing Siberian project," *The Washington Post*, May 15, 1980, p. A27.

<sup>24</sup> Meeting between Secretary Vance and Foreign Minister Okita, March 20, 1980. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00655.

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<sup>26</sup> Meeting between Secretary Vance and Foreign Minister Okita, March 20, 1980. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00655.

<sup>27</sup> Naoaki Usui, "USSR, Japan reach accord on Sakhalin LNG master plan," *Platt's Oilgram News*, Vol. 59, No. 125, p. 1.

<sup>28</sup> "US bars exports for Sakhalin project," *Platt's Oilgram News*, Vol. 60, No. 32, p. 2; "USSR, Japan slate further drilling off Sakhalin," *Platt's Oilgram News*,

- <sup>29</sup> Letter from Kobayashi Sadao to Donald Gregg, March 30, 1982. Ronald Reagan Presidential Library, Simi Valley, CA (RRPL): NSC Executive Secretariat, Japan 4/10/82-4/27/82.
- <sup>30</sup> Richard Childress was perhaps the only advocate of giving a positive reply.
- <sup>31</sup> Memorandum from Norman A. Bailey to William P. Clark, April 28, 1982. RRPL: NSC Executive Secretariat, Japan 4/10/82-4/27/82.
- <sup>32</sup> Memorandum from Roger W. Robinson to Norman A. Bailey, May 5, 1982. RRPL: NSC Executive Secretariat, Japan 5/5/82-5/19/82.
- <sup>33</sup> Memorandum for Paul Bremer III, May 19, 1982. RRPL: NSC Executive Secretariat, Japan 5/5/82-5/19/82.
- <sup>34</sup> On the misuse of Sodeco funds to purchase surveillance ships for the Soviets, see the following documents: "Intelligence Information Report," March 31, 1982. RRPL: NSC Executive Secretariat, Japan 5/5/82-5/19/82; Memorandum from Roger W. Robinson to William P. Clark, July 1, 1982. RRPL: NSC Executive Secretariat, Japan 6/11/82-9/3/82
- <sup>35</sup> Memorandum from Norman A. Bailey to William P. Clark, May 20, 1982. RRPL: NSC Executive Secretariat, Japan 5/20/82-6/5/82.
- <sup>36</sup> Cable from Mike Mansfield to the State Department, May 6, 1982. RRPL: NSC Executive Secretariat, Japan 5/5/82-5/19/82.
- <sup>37</sup> Cable from Mike Mansfield to the State Department, May 20, 1982. RRPL: NSC Executive Secretariat, Japan 5/20/82-6/5/82.
- <sup>38</sup> Cable from the US Embassy in Tokyo to the State Department, June 4, 1982. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00994.
- <sup>39</sup> Ibid.
- <sup>40</sup> Japan: Continuing Sakhalin Project, Internal Paper, July 28, 1982. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 01005.
- <sup>41</sup> Memorandum from Roger W. Robinson to Robert C. McFarlane, June 11, 1982. RRPL: NSC Executive Secretariat, Japan 6/11/82-9/3/82.
- <sup>42</sup> Cable from Mike Mansfield to the State Department, June 18, 1982. RRPL: NSC Executive Secretariat, Japan 6/11/82-9/3/82.
- <sup>43</sup> Douglas Brinkley (ed.), *The Reagan Diaries* (New York: HarperCollins, 2007), p. 89.
- <sup>44</sup> Cable from the State Department to the US Embassy in Tokyo, June 19, 1982. RRPL: NSC Executive Secretariat, Japan 6/11/82-9/3/82.
- <sup>45</sup> "Sakhalin project; Japan protests against US over Soviet sanctions," *The Japan Economic Journal*, June 29, 1982.
- <sup>46</sup> Memorandum from Roger W. Robinson to William P. Clark, July 1, 1982. RRPL: NSC Executive Secretariat, Japan 6/11/82-9/3/82.
- <sup>47</sup> Yukiko Fukasaku, "Energy and environment policy integration: the case of energy conservation policies and technologies in Japan," *Energy Policy*, Vol. 23, No. 12 (1995), pp. 1063-76. "Japanese energy; Never a guzzler be," *The Economist*, February 7, 1987.
- <sup>48</sup> These numbers are based on: "Japan to develop atomic energy," *Xinhua General News Service*, December 27, 1979 and "Japan's nuclear policies to be reviewed," *The Japan Economic Journal*, November 11, 1989.
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- <sup>50</sup> "For structural improvement of depressed industries; 14-38% capacity cut eyed for nine chemical products," *The Japan Economic Journal*, June 7, 1983; "Keidanren favors restructuring of ailing industries," *Jiji Press Ticker Service*, June 4, 1982. John Wall, "Aluminum," *Mining Annual Review*, June 1984, p. 47.
- <sup>51</sup> Yukiko Fukasaku, "Energy and environment policy integration: the case of energy conservation policies and technologies in Japan," *Energy Policy*, Vol. 23, No. 12 (1995), p. 1064.
- <sup>52</sup> Todd R. Eastham, "Tokyo and Moscow teaming up on huge oil and gas project," *United Press International*, February 3, 1985.
- <sup>53</sup> Vladimir Sushkov, *Zakliuchennyi po klichke 'ministr'* (Moscow: Sovershenno Sekretno, 1995), p. 186. The actual list of bribes for which Sushkov was indicted, remains secret, and there is some uncertainty as to which Japanese companies were involved. However, Anatolii Pristavkin, who had access to this list, clearly points to Sodeco (Anatolii Pristavkin, *Dolina Smertnoi Teni: roman-issledovanie* (Moscow: Tekst, 2002), p. 110) while Sushkov acknowledges Mitsubishi and Keidanren itself (Vladimir Sushkov, *Zakliuchennyi po klichke 'ministr,'* pp. 184-188). See also Andrei Baranovsky, "Sakhalin: gas production to begin in 1994," *Moscow News*, September 24, 1993. The balance of evidence suggests Sodeco's involvement.
- <sup>54</sup> Report on a meeting with Mikhail Kapitsa, September 14, 1985. Hungarian National Archive, Budapest, Hungary (MOL): XIX-J-1-j-Japan-004420/1-1985.
- <sup>55</sup> For a good review of the crisis in West-West relations see Richard C. Thornton, *The Reagan Revolution, Vol. 2: Rebuilding the Western Alliance* (Victoria, BC: Trafford Publishing, 2005), pp. 160-215; a useful introduction from a European perspective is Julie E. Katzman, "The Euro-Siberian Gas Pipeline Row: A Study in Community Development," *Millennium: Journal of International Studies*, Vol. 17, NO. 1 (1988), pp. 25-41.
- <sup>56</sup> The original conception was to export 40 BCM annually, but these plans were scaled down.
- <sup>57</sup> On the last point Reagan was quite right, although it was not until 20 years later that the Russians succeeded in terrorizing the Europeans by switching off the gas tap. Earnings estimates were, however, soon lowered. See Jonathan P. Stern, "Specters and pipe dreams," *Foreign Policy*, No. 48 (Autumn 1982), p. 23.
- <sup>58</sup> Edward Cowan, "US to let Soviet buy 'pipelayers'," *The New York Times*, November 19, 1980, p. D3.
- <sup>59</sup> Telegram from US Embassy in Moscow to the State Department. November 25, 1981. Digital National Security Archive, US-Japan relations, 1977-1992.



<sup>60</sup> Shiro Yoneyama, "Increased country risk...", *Japan Economic Newswire*, June 4, 1982.

<sup>61</sup> "Soviets want to buy gas boosters," *The Japan Economic Journal*, April 21, 1981, p. 1.

<sup>62</sup> "GE's tech. will be used for USSR gas pipeline," *The Japan Economic Journal*, September 22, 1981, p. 1.

<sup>63</sup> "Japanese may lose in selling gas boosters to the Soviet Union," *The Japan Economic Journal*, October 27, 1981.

<sup>64</sup> Hiroaki Kakizawa, "Market potential for Russian forest products in Japan," Working paper (Laxenburg, Austria: International Institute for Applied Systems Analysis, December 1994), p. 4.

<sup>65</sup> Stephen Webbe, "Reagan may block US firms from aiding on key Soviet pipeline project," *Christian Science Monitor*, January 15, 1981, p. 11.

<sup>66</sup> National Security Council meeting, July 6, 1981: 11:09am-12:22pm. Source: Margaret Thatcher Foundation website.

<sup>67</sup> Memorandum from the Secretary of Defense for the assistant to the President for national security affairs. July 8, 1981. Source: Margaret Thatcher Foundation website:

<sup>68</sup> National Security Council meeting, October 16, 1981: 2:00-3:00pm. Source: Margaret Thatcher Foundation website.

<sup>69</sup> Christopher Madison, "Trading credibility," *The National Journal*, Vol. 13, No. 39 (September 26, 1981), p. 1736.

<sup>70</sup> National Security Council meeting, October 16, 1981: 2:00-3:00pm. Source: Margaret Thatcher Foundation website.

<sup>71</sup> "Komatsu gets \$160 million pipelayer order from USSR," *The Japan Economic Journal*, July 14, 1981, p. 3.

<sup>72</sup> Clyde H. Farnsworth, "Washington Watch; Antitrust Sign is Glimpsed," *The New York Times*, August 3, 1981, p. D2.

<sup>73</sup> "Caterpillar gets export license," *The New York Times*, December 10, 1981, p. D4.

<sup>74</sup> National Security Council meeting, October 16, 1981: 2:00-3:00pm. Source: Margaret Thatcher Foundation website.

<sup>75</sup> Tracy Dahlby, "Japan imposes sanctions on Soviets, Poles; Officials also confirm large sale of pipeline equipment to Moscow," *The Washington Post*, February 23, 1982, p. A13.

<sup>76</sup> Conversation between Alexander Haig and Abe Shintaro. January 18, 1982 (Document date: January 21, 1982). Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00947.

<sup>77</sup> Japan-US relations: frameworks for the future. June 17, 1982. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 00997.

<sup>78</sup> Conversation between Francis Pym and Sakurachi Yoshio. September 3, 1982. Obtained by the author from the UK Foreign and Commonwealth Office in accordance with the Freedom of Information Act (request ref. 0001-10).

<sup>79</sup> As the CIA perceptively observed at the time, the Soviets had long "dangled the lure of trade before Japanese businessmen in order to weaken US-Japanese ties, sidetrack Japanese demands for the return of the disputed Northern Territories, and undercut strategic cooperation between Tokyo and Washington." See CIA, "Soviet use of economic relations for political purposes," May 9, 1983. Declassified in accordance with the Freedom of Information Act and available through the CIA FOIA online documents archive.

<sup>80</sup> Politburo meeting. September 9, 1982. The Library of Congress. Volkogonov collection.

<sup>81</sup> Soviet strategy toward Japan: the economic-political connection. Secret. Intelligence appraisal. c. March 1983. Digital National Security Archive, US-Japan relations, 1977-1992. Document No. 01138.

<sup>82</sup> Ibid.

<sup>83</sup> Fumitsune Nagaoka, "How Komatsu made it," *The Japan Economic Journal*, March 15, 1983, p. 6.

<sup>84</sup> Ibid., p. 5.

<sup>85</sup> See, for example, Togo Kazuhiko, "Medvedev signals intention to increase Russian presence," *Asahi Shimbun*, December 14, 2010.