

INSTITUTE OF CURRENT WORLD AFFAIRS

DAWJ #13

"A Possible Opportunity"

The Japanese and Siberia
1962-1970

Scott Polar Research Institute,
Cambridge,
England.

10 December, 1970.

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U.S.A.

Dear Mr. Nolte:

"The Americans we may suppose will make the most of this opportunity, and one would think that we might find a way to have at least a small share of such advantages...I think I see here a possible opportunity for the participation of the Government in association with leading financial institutions on behalf of Canadian trade interests."

This was written to the Canadian Minister of trade in the summer of 1918 by one of his officials fresh from the Russian revolution. The "opportunity" referred to was the Allied occupation of eastern Siberia.

As it turned out neither Americans, British, Czechs, French or Canadians gained any dividends from their naive attempts to hinder the Bolsheviks in the east and even the Japanese, who lingered on the Siberian coasts after the other military contingents had departed, eventually withdrew from Soviet territory in 1925.

Russia had again held the far reaches of Siberia and the Amur for the Slavs:

"The uniform is British,
The epaulettes, from France,
Japan sends tobacco
Kolchak leads the dance.

The uniforms are tattered,
The epaulettes are gone
So is the tobacco, and
Kolchak's day is done."

were the words of a popular Russian song which gave a potted version of Soviet victories in Siberia after 1920.

The eastern marches of Siberia, Mongolia, and Manchuria have been an oriental Balkans for at least a century. The allied occupation of the Amur in 1918 was only one event in the longer dispute as Russia, China and Japan strove for dominance along the Pacific littoral from Korea to Kamchatka. During the Second World War Siberia remained, by default, in a state of comparative truce and it was only during the 1960's that it again became the focus of conflict in the Pacific far east.

The recent negotiations between the USSR and Japan for joint commercial ventures in Siberia must be seen against the backdrop of this history because they represent in many ways, a continuation of national fears and motives inherited from the past.

After World War II Japanese-Soviet relations were at a low ebb. They had no priority either in Moscow or Washington in the hiatus of the cold war and it was not until 1956 that diplomatic missions between Tokyo and Moscow were re-established. The significance of commercial relations between the two countries at the time may be judged by the fact that in 1957 the total of Japan-Soviet imports and exports was only some \$20 million. But from 1956 onwards as both Japan and China were re-asserting their independence, the geopolitics of the far east began to resume their familiar shape; Japan completing its swift transformation into a modern, industrial state, China as a hamstrung giant still trying to absorb a foreign culture and technology on its own terms, while the Soviet Union hoped for breathing space to reinforce a vulnerable eastern frontier which was still only a ribbon of Slavic settlement between the rim of populous Asia and the hinterland of empty Russia.

In 1962, during the visit of a Japanese trade delegation to Moscow, the Soviet government suggested that Japan might become involved in the development of Siberian resources. The idea was not dropped and by 1966 a joint Japanese-Soviet Economic Commission was investigating several Soviet proposals.

1. Trans-Siberian Pipelines. The first project suggested by the Russians was the extension of an oil pipeline, from its present eastern terminus at Irkutsk, to the Pacific seaport of Nakhodka, across some 3,000 miles of eastern Siberia. This would have given the Soviet Union its first complete pipeline from the Urals to the Pacific. The cost of the project was estimated to be £785,000,000. The Japanese were to supply the pipe and the pumping equipment and would be repaid by an allocation of crude oil.

This original proposal was apparently enlarged by the Soviet delegations to involve the construction of a new pipeline from the Tyumen' oil and gas field in western Siberia, in the Ob and Irtysh valleys, over the 4,000 miles intervening to Nakhodka.

So far, nothing has come of these discussions. The Japanese may find not only the terms unattractive but the capital investment too large. It has also been suggested that, since the Tyumen' oilfield will not begin production until 1975, the Japanese are unwilling to commit themselves.

2. Sakhalin natural gas. A subsequent proposal by the Soviet negotiators was that Japan should participate in the development of the Okha gasfield on the north of Sakhalin Island where reserves of methane gas have been discovered and estimated at 60,000 million cu.m. There are at least three versions of this project which may represent either confusion in the reporting or different stages in the feasibility studies:

- (i) one, was that Japan should build a 730 mm. pipeline from Okha 925 miles to Hokkaido and receive in return 2,000 million cu.m of gas annually for its petrochemical industry in the Muroran district of south Hokkaido;
- (ii) another proposal, reported in the Petroleum Press Service in March of 1966, was that the pipeline would be built by the Japanese from Okha to Nevelsk in southern Sakhalin and from there, liquified gas would be sent to Hokkaido by tanker; and
- (iii) a third version, which was carried in a Japanese publication in 1968, spoke of a pipeline from Okha across the Mamiya Straits to Komsomolsk and Nakhodka. From there, presumably, the gas would go to Japan by tanker. Japan was to invest about \$200 million in plant and consumer goods and receive, for twenty years, 2,000 million cubic litres of gas annually.

The only certain outcome of these proposals to date is that they have produced no result. One suggestion is that the gas reserves of northern Sakhalin were over-estimated and that instead of the 60,000 million cu.m of gas, there may be only some 16,000 million cu.m in the field. Another suggestion is that the two sides were unable to agree on a price for the natural gas.

3. Yakutia natural gas. During the negotiations over the Sakhalin gas field the Soviet delegation submitted a fresh proposal that Japan should participate instead in a gas field in Yakutia where there is now a 150 mile pipeline between Ust'-Vilyuyskoye and the city of Yakutsk.

This would involve the construction of a pipeline over north eastern Siberia to Magadan on the Pacific, one of the harshest regions anywhere in the global north. The gas would be liquified at Magadan and shipped by tanker to Japan. The export of gas by this method was estimated at 10,000 million cu.m annually.

4. Udokan Copper. In 1966 and 1967 the USSR suggested that Japan should also consider participating in the exploitation of a copper deposit in the Chita Oblast' of eastern Siberia. It lies in the Udokan mountains 300 miles east of Lake Baikal and 500 miles north of the Trans Siberian railway. One report is that the mine will begin production in 1971 with an annual maximum capacity of between 400,000 and 800,000 tons. All of the information on the subject speaks of this copper reserve as the largest in the world.

The cost of development has been estimated at about £600 million. A Japanese report in 1968 said that the Soviet Union expected Japan to pay up to seventy-five percent of these huge development costs by supplying the mining, smelting and railway equipment for the project. Japan has responded with an offer to invest only £45 million.

In the literature discussing these four major projects there has been as well, brief mention of other Soviet proposals to the Japanese which include the development of iron, zinc, lead, tungsten, mercury and coking coal deposits and of electric power generation in Siberia. Machinery from Japan for fertilizer plants to be established around Komsomol'sk has also been mentioned as a possible joint project between the two countries, and reference to a new steel mill at Tayshet appeared in one report early in 1968. The Japan Times carried a brief reference on 26 October, 1970 about a co-operative scheme for oil exploration in the Sea of Okhotsk.

Finally, The Japan Economic Journal reported on the 30 June, 1970 an investigation by the Japanese Ministry of Transport into a scheme designated as "The Siberian Land Bridge"; the use of the Trans-Siberian railway for Japanese exports to Europe. The idea was mooted by a Swiss firm which now specializes in container cargo on the European rail network. The suggestion is that Japan might be able to send up to 10% of its exports to Europe by container through Nakhodka across the Trans-Siberian to Moscow and thence to such destinations as Helsinki, Wilhelmshaven, Vienna or Basel. The Japanese National Railways calculate that the transshipment would take 43 days at a maximum which is only slightly longer than the shipping routes "to the farthest European destination." This time could be reduced to twenty days with adjustments in existing railway schedules.

The cost figures given in this newspaper report predict a rate of between \$1,000 and \$1,200 for a twenty-ton container or a saving of nearly 30% over the shipping rate.

While these projects already mentioned have so far come to nothing, there are others which have resulted in formal agreements.

5. Timber in the Sikhote Alin mountains. Early in 1968 the two countries ratified a contract for the joint exploitation of the forest reserves in the Sikhote Alin mountain range along the Pacific coast of Siberia north-east of Vladivostok. Japan will supply 935 bulldozers and other new forestry equipment costing £68 million. This will be paid for in annual instalments over five years at a rate of interest variously reported to be 6% or 5.8%. The price of the Soviet timber will be based on the 1968 value of \$21 per cu.m and will rise by one per cent a year during the period of the agreement. Japan will import 8,800,000 cu.m of timber from the project and this is in addition to the present Japanese imports of timber from the USSR.
6. Soviet Pacific ports. Vladivostok has evidently ceased to be the major commercial port for trade on the Siberian Pacific coast and is now used as the principal base for Soviet sea power in the east. It has been

temporarily replaced by Nakhodka, seventy kilometers east of Vladivostok, a small port which is unable to handle the traffic demands placed on it. The Soviet Union is now using Japanese technical advice and equipment to increase the facilities at Nakhodka.

A new port to relieve Nakhodka is included in the schedule of Soviet plans for 1971. It is to be sited some thirty kilometers from Nakhodka in Vrangal Bay and will be built with Japanese equipment and technical advice. The cost is quoted in figures running between \$50 and \$80 million. The Times reported on 10th February, that the new facilities would be designed for an annual capacity of ten million tons of coal, 800,000 tons of wood pulp and between 120,000 and 140,000 containers a year.

Communications. In 1966, Japan and the Soviet Union agreed to lay a coaxial telecommunications cable between Naoetsu in Japan and Nakhodka. The Novosti Information Service reported from Moscow on 14 April, 1969 that the 800 kilometer line had been laid and successfully tested.

In January of 1966 a Japan-Soviet Air Agreement was signed in Moscow for a reciprocal airline schedule between Tokyo and Moscow.

Trade between Japan and the Soviet Union has increased steadily since 1957. The figures for 1968 published in an official Japanese bulletin gave the total trade between the two countries as \$642 million; Japanese exports to the USSR running to \$179 million and imports from the Soviet Union at \$463 million. The figure for 1970 has been set, by mutual agreement, at a total of \$720 million. These figures, incidently, still account for something less than 3% of Japan's impressive annual foreign trade transactions.

From looking at these several projects it seems that the idea of joint Japanese-Soviet co-operation in Siberia has yet to be given a fair trial. The schemes in western and central Siberia are vast, expensive and remote, and some of them will obviously require a degree of technical risk and experimentation which would not be attractive features to private investment. It must also be said that some of the schemes in which the Japanese have been asked to participate are ones to which the Soviet Union has given a low priority. They are "second string" projects, so to speak. It would have been a bonus to Soviet development had they been able to persuade a foreign country to invest both the necessary hardware and the huge amounts of currency needed. In other words, it may be correct to surmise that the USSR would gain far greater advantage from these projects than the Japanese.

The Soviet delegations tried to argue otherwise. The Japan Quarterly (1967, Vol XIV. No.4) carried this comment on the Udokan copper project:

"However, the Soviet Union propounded a view that, since the mine is in a frontier region and would essentially be developed for the benefit of Japan, then Japan should be responsible for quite vast sums in the way of development expenses."

The Japanese were not convinced. Nor was there any reason why they should buy into a Soviet project on such terms. International competition for Japanese investment is keen. Canada is an obvious example. British Columbia sells 40% of its mineral production to Japan and recently Japan committed herself to buy \$1,500 million of Canadian coal over the next fifteen years. A new iron mine is under development on Moresby Island, in the Queen Charlottes, British Columbia, which will cost some \$45 million. This investment has been made possible by a Japanese contract to purchase 950,000 tons of iron-ore each year for the next decade. In the Yukon the Japanese have financed the development of New Imperial Copper Mines to provide ore concentrates for the domestic industries. A rough estimate of Japanese involvement in the British Columbia and Yukon economy was published in the Vancouver Financial Examiner on 27 August, 1969. It gave these figures (in Canadian dollars):

| | |
|--|---------------|
| (i) Japanese investment in mineral industry: | \$ 60 million |
| (ii) Annual exports of Minerals to Japan: | \$150 million |
| (iii) Annual exports of minerals to Japan by 1975: | \$550 million |

The negotiations between Japan and the Soviet Union, protracted and hard as they may have been, seem, until now, to have tried to disregard this factor of international competition. The Soviets apparently approached the Japanese on a "first refusal" basis, keeping other potential investors out of the running for the time-being, a tactic which would not strengthen the Soviet hand. They may also have over-estimated Japanese eagerness to tap Siberian resources. Proximity is not necessarily an advantage to the Japanese. It is no longer crucial in terms of modern transportation and it can be offset by more attractive terms and conditions offered elsewhere in the Pacific community.

Competition is a factor the Russians will have to try to turn to their advantage if they are going to overcome the substantial inhibitions which the Japanese must harbour about Siberia. There is no doubt that huge amounts of raw material are available in Siberia for the burgeoning Japanese economy. But will the Japanese rest easy if, in the future, large amounts of strategic resources come from Soviet territory? And will the United States be content to see Japan tie itself into a Siberian hinterland?

There are, as well, immediate restrictions still to be overcome and which, although relatively slight, reveal a good deal about the cramping nature of doing business in Siberia. In 1966 for example, a Japanese delegation included these points in their proposals to the Soviet Union to aid the negotiations:

- (i) extension of visas and improvement of living conditions for Japanese commercial representatives in the USSR;

- (ii) "smooth acceptance" of survey groups from Japan, and
- (iii) respect for internal customs of trade transactions.
(The Oriental Economist, May 1966, p.267)

Apparently, the Japanese have found it difficult and sometimes impossible to inspect the Siberian projects they were being asked to invest in. To the Japanese this is not only bad business but possibly an insult as well. It would not be an auspicious sign for Japanese experts who have now traversed, often alone, and always unimpeded, the remotest sections of northwestern Canada.

It remains to be seen if the Soviet system of offering only production-sharing contracts to the Japanese for Siberian resources will be attractive enough. Many of Japan's foreign investments involve her in management, equity or outright ownership. Would be Russians ever consider this for Siberia ?

However serious these complications may be - the international competition and the wrinkles of doing business in Siberia - they are compounded by the difficulty of trying to bend commercial deals to the frank purposes of geopolitics. The Soviet Union tries to enlist Japan as an ally and agent to bolster its occupancy of an eastern frontier. The Chinese claim that the deals are the work of "scums (sic) and traitors" in the words of the Peking People's Daily. And though the Soviet Union may be singleminded in its objectives the Japanese are not. Siberian resources are important sources of raw material but Japanese prosperity depends even more on markets. Should the Japanese trade on a short-term advantage in Siberia and thereby, perhaps, jeopardize future sales to a larger Chinese market ?

The Japanese have also attempted to use these negotiations over the last eight years to promote political interests. The issue for them is the return of four small islands immediately off the north-eastern coast of Hokkaido which have been occupied and claimed by the Soviet Union since 1945. Together, they comprise an area of about 5,000 square kilometers.

The Japanese assert an historical claim to these islands since none of them has been a part of the conquest and re-conquest of the Kurile chain which has gone on between Russia and Japan over the last century. (The Japan Quarterly, 1970 Vol XVII No.1, pp 18-26 contains a useful commentary on this subject.) The islands perhaps, have some small importance to Japan beyond considerations of national pride because they are a source of edible seaweed and their ownership also involves concomittant fishing rights. They are, as well very close to the Japanese coast, the nearest being only 3.7 kilometers away.

The Soviet Union has recently reaffirmed its intention to keep the islands. The Times of 24th October, 1970 quoted a statement from the Tass correspondent in Toyko which dubbed the Japanese attempts to regain the territory as "revanchist claims on the Soviet Union". There the matter stands.

It is difficult to judge how much importance this territorial issue has in the Japanese commercial negotiations with the USSR. It has not prevented agreement being reached on the forest industry project in the Sikhote Alin mountains nor has it halted the joint development of the new port in Wrangel Bay where an initial contract for Japanese consultants was signed in April, 1970, for harbour designs and blueprints costing \$350,000. It was in the previous November that Izvestia referred to the Japanese claims to the Kuriles as mere "anti-Soviet hullabaloo". It is tempting to think, therefore, that while the Japanese may be sincere in their efforts to regain the islands, they will, for the time being, use the issue only as a joker, as a convenient device to break-off otherwise fruitless negotiations.

I began within the setting of recent and relevant history but the concepts and schemes discussed in this newsletter are reminiscent of a much older past; of the 16th and 17th centuries when the north was to be a part of the grand designs of geopolitics and trade of Europe's nation States. It was a concept foiled by geography. The northern hinterlands of Europe, Asia and America were left to exploration, to fur and forests, and as a footnote in the history of empires. In the last hundred years they have been used increasingly for science, for defence, and for the patchy development of resources. Now, we are on the verge of another attempt to tie the north into global economic strategy with whatever "possible opportunity" that may offer for co-operation or for rivalry.

The national response to this opportunity and challenge is, so far, markedly different. For the Soviet Union, the north means a turning inward; a continuation of that intense and deliberate process of development and self-preservation which has absorbed and isolated the Russian and Soviet peoples for so long.

Siberia is the focus of a preoccupation. It is a potential asset but an expensive proposition. If development is to go ahead in Siberia regardless of cost it could be a process to hold the Soviet Union in pawn for the rest of the century.

For Canada, the north does not mean isolation. It remains to be seen how, or whether, the Canadians will be able to expand their narrow country northwards without diminishing that small measure of independence they now possess. Perhaps Canadians may try to reverse an historic pattern by calling in the old world to redress the balance of economic power in the new.

Greenland may remain and survive only as a northern adjunct of a benevolent Denmark. But could she ever become for Canada a second Newfoundland? It seems unlikely, but there are temptations in the way. There is a traditional sense of community between Greenlanders and Canadian Eskimo which has apparently survived the imposition of political boundaries. There is also a rising opinion among some Greenlanders that their future is cramped and restricted by a subsidized and precarious harvest economy. If north eastern Canada is ever dotted with large enterprises the Greenlanders would find the region attractive. They would make

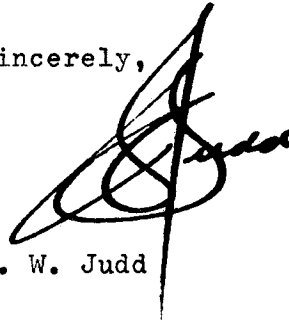
ideal northern transients or settlers: sophisticated, relatively prosperous and naturally acclimatized, they would possess the clear advantage over expatriates from southern Canada. They might someday, replace the highland Scot and Orkneyman as the bourgeois of the north.

In Scandinavia and Finland northern development will imply further integration, interdependence and probably, a continuation of the contemporary Finnish exodus from Lapland to northern Sweden. The future of Finnish Lapland is problematical - for the Finns. Lapland looks not only south to Helsinki but also north to the Barents Sea and to the markets of Murmansk and the Kola Peninsula. The future of Finnish Lapland will turn on policies made in Moscow as much as those coming from Helsinki.

Beyond these national patterns and local complexities there are other compelling factors which will influence the future and pace of any development in the north. If there is any feature now common to all parts of the north today, it is subsidy. But if these recent negotiations between Japan and the USSR are any indication, it is profitability upon which the future of the region depends. Northern resources must be a paying proposition for the rest of the world.

And should we be thinking of the north as an exercise in international co-operation? It may be more realistic to recognize that any "possible opportunity" for northern development means today what it meant in 1918 - competition.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David A. W. Judd', written over a vertical line that extends from the signature down to the typed name below.

David A. W. Judd

I have used several sources for this newsletter but I am particularly indebted to these:

Sargent, John 1968. "The Rising Sun in Siberia"
The Geographical Magazine Vol. XLI No.1 October.

Conolly, Violet 1970. "Soviet-Japanese Economic
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Vol. 2 No.1 October.

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