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ECONOMIC COMMITTEE

JAPAN'S TRADE RELATIONS WITH STATE ECONOMY COUNTRIES

Note by the German Delegation

I. Trade Statistics

The final Japanese customs statistics in respect of purchasing countries have now been published for the first quarter of 1975. In addition, provisional figures covering the second quarter and first half of the year are available for the major purchasing countries (Chinese People's Republic and Soviet Union) and for groups of countries (the smaller state economy countries in Eastern Europe and in Asia). These statistics are shown at Annex, together with reference figures for last year and percentage changes in imports and exports.

2. According to the statistics, Japanese trade with state economy countries shows much the same trend - although it is more pronounced - as that of the Federal Republic. Although overall exports for the first half of the year were down again, in Japan as well, exports to state economy countries (including the GDR) rose, in contrast, by 66.6% as compared with the same period in the previous year (Federal Republic: 22.2%) and, when expressed as a proportion of overall exports, went up from 6.1% in the first half of 1974 (Federal Republic: 6.1% likewise) to 9.1% in the first half of 1975 (Federal Republic: 7.7%). Here again, the Soviet Union has accounted for a substantial proportion of the increase in exports (142.5%; Federal Republic: 66.3%).

3. Japanese imports, on the other hand, have fallen somewhat more than German imports (-5.4% and -1% respectively). In the first half of 1974, there was a slight deficit in Japan's trade balance with the state economy countries (-DM. 40 million), whereas in the first half of 1975 the balance showed a surplus of some DM. 2.6 milliards (Federal Republic: DM. 4.5 milliards as compared with DM. 2.9 milliards in the first half of 1974). Trade with the Soviet Union, after showing a deficit of about DM. 807 million, is now in surplus (about DM. 710 million). The surplus in transactions with the Chinese People's Republic has increased threefold, from about DM. 370 million to about DM. 1.16 milliard.

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4. The effects of the developments described above have been the same for Japan as for the Federal Republic. Notwithstanding its attempt to achieve long-term stability and to diversify its imports of raw materials, Japan does not appear to have found a remedy to the situation.

II. Treaties and Agreements (as from the Date of the Reference Report)

(a) Chinese People's Republic

5. The fisheries agreement was due to be signed on 15th August and was the last of the four agreements referred to in the 1972 Communiqué on the resumption of diplomatic relations (trade, air navigation, maritime navigation and fisheries).

(b) Soviet Union

6. A fisheries arbitration treaty was initialled on 7th June.

(c) Bulgaria

7. In the course of the visit paid to Tokyo from 2nd to 6th June by the Bulgarian Foreign Minister, Mr. Mladenov, the Bulgarians, like the Rumanians before them, expressed their interest in a treaty of co-operation. Here, too, however, the Japanese rejected the principle of such an agreement.

III. Other Important Facets of Economic Relations

(a) Soviet Union

8. At the request of the Russians, what was termed a "meeting of high officials" of the Joint Soviet-Japanese Economic Committee took place in Tokyo from 9th to 12th June, 1975. It was the third meeting of this kind, called, where necessary, between Plenary sessions of the Joint Economic Committee. The Soviet Delegation of five was headed by Mr. Semichastnov, Vice-Minister for Foreign Trade and Chairman of the Soviet-Japanese Economic Committee. The Agenda was given over to the Committee's official projects for Siberia - now in the process of implementation or under negotiation (the port of Vrangal, wood chips and pulp, coal from South Yakutskaya, the second forestry agreement for Eastern Siberia, natural gas from Yakutskaya, natural gas and mineral oil on the Sakhalin continental shelf, paper and cellulose from Eastern Siberia). The Tyumen project was not discussed.

9. The actual meeting produced no tangible results. It did, however, speed up the negotiations on credit agreements in respect of the Yakutskaya and the Sakhalin projects, which were initialled shortly afterwards (see Section IV, paragraphs 2(a) and (d) below).

10. As regards paper and cellulose from Eastern Siberia, the Japanese have indicated that they are willing to start early negotiations on a general agreement. The Soviet Union has asked Japan to supply not only machinery and equipment for construction of the plant but also to undertake the actual construction work. The Japanese have drawn attention to such questions as the difficult geographical conditions but have agreed to negotiate on this matter likewise.

11. At Japan's request, a Japanese Delegation will be going, this autumn, to inspect progress on railway works which have been put in hand in connection with the Yakutskaya and Vrangal projects. It has been agreed that the Seventh Plenary Session of the Joint Economic Committee will be convened in Tokyo next year after the adoption of the tenth Soviet Five-Year Plan (1976-1980).

(b) GDR

12. The agreement in the construction of a "Shopping Centre" on the Friedrichstrasse in East Berlin is to be signed during the visit to the Leipzig Fair in September of a delegation of 40 leading Japanese officials and businessmen who are members of the Japanese-GDR Economic Committee. The original project was for a 20-storey building costing \$20 million; there is now said to be some question of a 23-storey building and a Shopping Centre costing \$40 million. Reporting on this subject, "Nihon Keisai Shimbun" says that the building will be the second-highest in the GDR.

(c) Bulgaria

13. In the course of his visit to Tokyo (see Section II, paragraph 7 above), Mr. Mladenov, the Bulgarian Foreign Minister, stated that Bulgaria, like all state economy countries, hoped to be able to achieve a better trade balance through an increase in Japanese imports. Here too, the Japanese did not suggest any concrete solutions.

(d) North Vietnam

14. The negotiations on non-reimbursable economic aid, which has been under consideration for some time, were broken off on 4th April, 1975 following events in South Vietnam, but were resumed again in mid-June by the Japanese Ambassador and the

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North Vietnamese Ambassador in Vientiane. These negotiations are still in progress. In the meanwhile, the North Vietnamese have insisted that Japan's aid should be on a par with its aid to South Vietnam before the collapse of the Thieu régime. Negotiations are now on the basis not of 5 milliard but of 14 milliard yen (approximately \$47 million).

15. According to press reports, the North Vietnamese, like the Chinese, are now insisting, for the first time, that deliveries should be billed in DM. An agreement along these lines is believed to have been reached early in June between the North Vietnamese Government and the "Japan Vietnam Trade Association" for delivery during the current year of between 550,000 and 650,000 tons of large coal at DM. 101.40 fob per ton.

(e) Mongolian People's Republic

16. A Japanese Government Delegation visited Mongolia between 28th June and 11th July, 1975 on a fact-finding tour. On the basis of the Delegation's report, the Japanese Government will decide whether or not to grant economic aid to Mongolia.

IV. Export Finance

(a) Chinese People's Republic

17. In the course of negotiations on Japanese steel deliveries in the first half of 1975, it was agreed that payment of about 80% of these deliveries, valued at some \$400 million, would be delayed for a year and that the Eximbank would not be involved in the transaction. Supplier credits from the Eximbank were discussed in connection with the balance of the order, which is for weldless pipes. However, the Japanese having insisted on a mixed interest rate of 7.8% and the Chinese being unwilling to go beyond 7.0%, after pointing out that easier rates had been charged so far for Japanese deliveries of capital goods, it was finally agreed that the order should be paid for in cash.

(b) Soviet Union

18. The credit agreement for the financing of the first phase of the Yakutskaya project (involving about \$100 million) was initialled on 14th July, 1975.

19. Mr. Alchimov, Soviet Vice-Minister for Foreign Trade, availed himself of this opportunity to ask the Japanese Eximbank for a further credit of \$150 million for the Southern Yakutskaya coal project, in addition to the \$450 million or so, originally

arranged, on the grounds of increased prices for machinery and plant. Eximbank pointed out that only about 40% of the agreed credit had been used so far and suggested that the Russians should first discuss the matter with the Japanese firms participating in the project.

20. An agreement on the line of credit of \$240 million granted by Eximbank and a consortium of 23 merchant banks to finance the export of four ammonium plants to European Russia was signed on 22nd July, 1975.

21. The credit agreement to finance the Sakhalin project (about \$150 million in all) was initialled on 24th July, 1975.

(c) Eastern Europe

22. According to the Japanese Foreign Ministry, the private credit lines granted in agreement with Eximbank to Poland, Rumania and Bulgaria by Japanese firms have been taken up almost entirely by Poland, but not at all by Rumania or Bulgaria.

(d) Bulgaria

23. In promising Mr. Mladenov, the Bulgarian Foreign Minister, during his visit to Tokyo (see Section II, paragraph 7 above) the funds for a 500-room hotel in Sofia (at a cost of \$20 million), on conditions similar to those accorded to the developing countries, Japan has been more accommodating towards Bulgaria than towards the other East European countries. In the interval, the Japanese have laid down the conditions for the credit. The Japanese "Overseas Economic Co-operation Fund" will provide \$16 million at a rate of interest of 4.75% for 14 years (first repayment after 6 years). The remaining \$4 million will be made available by Japanese merchant banks at a rate of interest of 10% for 5 years. This means that Bulgaria will pay a mixed rate of interest of 5.8% over a period of 12 years with the first loan repayment due after 5 years.

(e) North Korea

24. In the course of a visit to China, Mr. Utsunomiya, a member of the Japanese Government party (PLD), had talks, from 12th to 19th July, 1975, with a special envoy of Kim-Il-sung, the North Korean Head of State. These dealt, inter alia, with the clearance of North Korea's debts, the non-payment of which had led to the suspension of Japanese export credit insurance.

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According to reports published in the Japanese press on 21st July, 1975, the Head of State's envoy assured Mr. Utsunomiya that Kim-Il-sung himself had decided that the outstanding \$10 million would be repaid in full. A report in "Nihon Keizai Shimbun" on 2nd August, 1975 announced that the payments had reportedly been effected, that Japan was to be treated as a preferential creditor for political reasons, and that the Japanese Ministry of the Economy (MITI) considered that the situation had now eased. After payment of the instalments due at the end of August, requests for guarantees by the credit insurance body might be accepted once again within the context of further payments. The MITI, for its part, declines to take any position on this issue, which is felt to be sensitive.

(f) North Vietnam

25. According to press reports, the Japanese Government has decided to release Eximbank funds in order to provide, supplies credits for exports to North Vietnam. The same sources indicate that this constitutes the preliminary decision on export finance:

- (a) for a fertiliser plant, valued at \$50 million, to be supplied by the Hitachi Shipbuilding Company;
- (b) for a coking plant, valued at \$12 million with a yearly capacity of 50,000 tons.

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