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than those of the other major DAC donors. The average maturities of those loans are 22 years, the average interest rate is 3.5 p.c., and the average grace period is 6–7 years. Japan's technical assistance and multilateral investment are minimal.

In view of the reasons touched upon above, it is understandable that Japan's self-interest is best served when the lion's share of its private foreign aid (export credit and direct investment) is extended to five Asian countries, namely, India, Indonesia, Pakistan, South Korea and Taiwan, although a total of 27 countries are recipients of Japanese development assistance. The relative importance to Japan of the different developing areas finds expression in Table 6.

Japan is destined to be the most developed Asian nation for many years to come. Although the economic gap between it and that continent's LDC's can be expected to widen further, its potential adverse effect on international relations will be reduced if Japan amends its policies of economic and inward-looking nationalism of the last decade. An economic symbiosis between Japan and the rest of Asia is not only desirable, but inevitable. Japan, more than any other country, can accomplish a great deal by its constructive assimilation into the world trade and monetary communities. This objective is well served by the progressing liberalization and internationalization of the nation's economy as well as by the greater geographical diversification of its exports.

Trade Relations with the Communist Countries

by Bernd Kunze, Hamburg *

After the Federal Republic of Germany, Japan is the second largest trade partner of the Communist countries as a whole and of the Soviet Union and the largest partner of the People's Republic of China. It has only been in recent years that Japan gained this formidable position in the trade with the East.

Japan's exports to the Communist countries went up in 1972 by 25.5 p.c. against the previous year, to \$ 1,441.3 mn. The imports from the countries of the Eastern bloc increased in the same year by 29.9 p.c. to \$ 1,225.1 mn. This means that 5 p.c. of Japan's total exports (1971: 4.8 p.c.) and 5.2 p.c. of its total imports (1971: 4.8 p.c.) went to, and respectively, came from the Communist states. In 1960 Japan's importance as a trading partner for the Eastern bloc had still equalled only that of Belgium/Luxembourg, Denmark or The Netherlands. But in the beginning of the sixties Japan made great efforts for an expansion of its trade with the Communist countries. While the Japanese government especially strengthened its contacts with the COMECON-states, it also modified the export restriction valid in the COCOM-orbit¹ in 1960 and, on April 26, 1961, lifted the stipulations for barter

transactions in the trade with most state-monopoly countries, and allowed cash transactions. The result was an increase of Japan's imports from the Socialist states by 79 p.c. in 1961 and by 114.4 p.c. in the following year. Ever since, there has been a permanent growth of the exchange of goods between Japan and the state-monopoly countries. Only in 1969 Japan curtailed its imports from the Soviet Union temporarily because of the exports not having been considered adequate in 1967 and 1968. Japan's trade balance with the People's Republic of China has been showing a surplus since 1965 whereas the trade with the COMECON-states resulted during the period under review in a deficit with the exception of the years 1962 and 1972 (see Table 1).

There was, during the last 10 years, simultaneously a relatively big change in the regional structure of Japan's trade with the East: in the early sixties the Soviet Union had clearly been Japan's biggest trade partner, but since 1965 the People's Republic of China has — interrupted only during the Cultural Revolution — been occupying this

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¹ COCOM = Coordinating Committee: a merger of the NATO-countries excluding Iceland but including Japan for the purpose of preventing the export of goods of strategic potential to the Communist world.

leading position². But there has also been a relatively marked upward trend in the exchange of goods between Japan and the remainder of the state-monopoly states with the exception of North-Vietnam — although the level of the exchange of goods with those countries is extremely low.

As regards the structure of the goods, the same applies to Japan as does to the East-trade of Western Europe's industrial countries³: whilst the imports are predominantly commodities and raw materials (groups 0–4 of the UN nomenclature), Japan on its part supplies foremostly industrial goods (groups 5–8) to all Socialist countries without exception (see Table 2). In detail, Japan exports mainly machines, textiles, chemicals (especially fertilizers), iron and steel, transport equipment, tubes and pipes, and metalprocessing and electrical engines. On the import side, Japan primarily takes raw silk and raw cotton, timber, fruit and vegetables, fish, soya beans, coal, non-ferrous metals, platinum, minerals and chemical products.

Export-Import Policy

The legal basis of the Japanese foreign trade is the "Foreign Exchange and Foreign Trade Control Law" of December 1, 1949, which has meanwhile been altered several times⁴.

The Japanese exports to the Eastern bloc are affected according to COCOM-rules. All goods enumerated in the Japanese export-control-list require an export licence, which is given in accordance with the "Export Trade Control Order" by the Ministry of International Trade and Industry (MITI) after rigid scrutiny. The control list contains all items and groups of goods subjected to international embargo control. As Japan undertook major revisions of the embargo list already in 1960 and 1965, the list did after the 1969 COCOM-meeting contain 167 positions. In the wake of the new American Eastern policy and the economic embargo conditions coupled to it, the Japanese government has, with effect from January 1, 1973, shortened or relaxed the embargo list for the export to Eastern countries including China by a further 68 industrial goods.

The Japanese *imports* are affected either according to the "Import Quota System" (IQ-System) or the "Automatic Approval System" (AA-System)⁵. The IQ-System embraces all goods for which

there is a quota and whose import must be permitted by the MITI. All other goods fall under the AA-System, the import banks automatically granting the import licences. Since the last round of import liberalisation of March 31, 1972, only 33 trade positions have been still subjected to import controls. As a rule there is no discrimination against the Socialist countries, the Japanese restrictions being solely orientated on categories of goods and merchandise, and not countrywise. Trade obstacles of a tariff or a non-tariff nature exist solely for countries not diplomatically recognised. A particularity is the so-called "L-T-trade"⁶ or, since 1968, the "Memorandum-trade" in the business with China in which the various items are contracted direct between the business partners. But the "Memorandum-trade" covers scarcely 10 p.c. of the total Sino-Japanese trade.

Japan's Interest in the COMECON-Trade

Already in the early sixties Japan endeavoured to establish closer economic relations also with the East-European satellites. But there was no marked expansion of the trade volume with all countries of the Eastern bloc prior to 1969/70. It has to be added, though, that Tokyo did sign long-term trade and payments agreements with the COMECON-countries following the establishing of diplomatic relations with the Soviet Union in 1956, with Poland in 1958, Czechoslovakia in 1959, Roumania in 1960 and Hungary and Bulgaria in 1961. But the actual activities scarcely went beyond visits of delegations and the participation in fairs and exhibitions. They were however partly the forerunners of an exchange of goods.

It has only been since the mid-sixties that the Japanese economy incorporated the East European states in its foreign trade conception to a greater extent. So, it was an arrangement of June 9, 1965, about the coastal trade and the conclusion, in 1966, of a long-term agreement that more distinctly formalised the trade with the Soviet Union. Ever since, there have been three channels for the Soviet-Japanese trade: the Japanese Association for the trade with the Soviet Union and Eastern Europe, with which several hundred Japanese firms are affiliated and whose counterpart are the official Soviet foreign trade organs; the mixed board for economic cooperation; and, thirdly, the "Coastal Trade" between the Japanese associations on the coast of the Sea of Japan and the Soviet authorities in the Far East

² It must however be mentioned that the Sino-Japanese trade suffered severe setbacks during 1958–1963 on account of the "Flag Incident" of Nagasaki on May 2, 1958.

³ See: CEPES (publisher), *Wirtschaftsbeziehungen zwischen Ost und West, Handel und Kooperation*, edited by Klaus Bolz and Bernd Kunze, Bonn 1973, passim; Bernd Kunze, *Trends in Britain's Eastern Trade*, in: *INTERECONOMICS* (Hamburg), 1972, Vol. 10, pages 317 ff.

⁴ See Foreign Exchange Study Association (publisher): *Japan Laws, Ordinances and other Regulations concerning Foreign Exchange and Foreign Trade*, October 1, 1965, page (A) – 1 ff.

⁵ The "Automatic Import Quota System" (AIQ-System) was abolished in February, 1972.

⁶ Called after Liao Ch'eng-Chi and T. Takasaki, who concluded a long-term agreement between Japan and the People's Republic of China, which was valid from 1963 to 1967.

provinces. In 1965 Japan also decided to double its trade with Roumania. In the same year, the first export credit was granted to Hungary. Early in 1967 a joint economic committee was set up with Poland, and a Japanese section for economic and technical cooperation founded in the Bulgarian chamber of commerce. In 1968 the Japanese economy had the Czecho-Slovakian market systematically analysed and made efforts towards intensified cooperation with that country. In 1970, finally, a Japanese-Bulgarian protocol about scientific and technical cooperation was signed — the second of its kind, a similar one having been signed with the Soviet Union in 1967, and permanent representation of the Japanese export and import company was established in Warsaw, the third one after Moscow and East Berlin. In the middle of 1972 trade committees in Tokyo and Warsaw as well as the economic committee Japan-Roumania were founded. In each

instance, these activities resulted in an upswing of the exchange of goods with the relevant COMECON-states (see Table 1).

Special Case: German Democratic Republic

Japan's economic relations with the German Democratic Republic (GDR) have been overshadowed by political motives to a greater degree than in the case of the other COMECON-countries. Therefore, the GDR has, in spite of its economic efficiency, been Japan's smallest Eastern Bloc partner until 1967. The permanent stumblingstone was the GDR's ambition to open a trade mission in Tokyo. So, the leaders in East Berlin demonstratively cancelled a large order in 1966 that had previously been placed in Japan when the Japanese Foreign Minister spoke in Bonn against the setting-up of a GDR trade mission in Tokyo. All the same, Japanese firms subsequently partici-

Table 1

Japan's Foreign Trade with the COMECON-states¹ and the People's Republic of China, North-Korea and North-Vietnam (1959–1972)

(US \$ in mn)²

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972 ³
Exports														
USSR	23.0	60.0	65.4	149.4	158.1	181.8	168.4	214.0	157.7	179.0	268.2	340.9	377.3	504.2
GDR	0.8	0.6	1.6	0.4	0.6	0.1	1.2	2.5	3.1	2.8	5.9	14.7	35.1	47.6
Poland	0.8	0.8	1.7	2.7	1.2	2.5	5.4	3.0	5.9	7.1	14.1	22.4	42.2	88.8
Czecho-Slovakia	4.2	0.9	4.2	3.6	6.5	2.8	8.7	4.3	6.3	3.2	14.3	10.1	14.8	15.0
Hungary	0.1	0.4	1.2	2.0	2.6	4.0	2.3	2.8	3.6	5.2	11.7	11.0	11.0	11.3
Roumania	—	—	1.8	6.4	8.1	19.2	15.2	21.9	27.3	21.9	22.2	26.1	36.3	48.0
Bulgaria	0.4	0.8	1.5	1.7	2.2	7.5	10.9	24.5	24.5	15.0	11.8	20.8	19.9	21.0
Total	29.3	63.5	77.4	166.2	179.3	217.9	212.1	273.0	228.4	232.6	341.7	446.7	536.6	735.9
Imports														
People's Republic of China	3.7	2.7	16.6	38.5	62.4	152.7	245.0	315.2	288.3	325.4	390.8	568.9	578.2	608.9
North-Korea	0.2	1.1	4.5	4.8	5.4	11.3	16.5	5.0	6.4	20.8	24.2	23.3	28.9	93.4
North-Vietnam	4.5	6.0	4.6	3.4	4.3	3.4	3.9	5.7	1.8	20.7	7.3	5.0	3.8	3.1
Imports														
USSR	39.5	87.0	143.5	147.3	162.0	226.7	240.2	300.4	453.9	463.5	461.6	481.0	495.9	593.9
GDR	0.5	1.0	9.5	4.7	3.2	3.3	1.2	3.6	15.3	30.7	31.0	38.6	11.0	12.1
Poland	0.3	0.5	1.8	1.5	1.3	2.1	2.0	4.1	26.3	39.4	43.7	39.6	31.4	39.9
Czecho-Slovakia	2.7	4.2	4.8	4.1	4.4	6.0	7.1	6.9	18.0	14.7	10.7	15.2	14.4	13.1
Hungary	0.1	0.1	0.8	3.5	0.4	0.6	0.4	0.7	1.4	2.3	5.0	4.2	7.0	9.8
Roumania	—	0.3	5.2	0.3	7.7	11.9	19.0	19.8	32.0	15.2	14.3	4.3	8.4	11.2
Bulgaria	0.7	0.9	2.6	1.5	1.4	5.8	6.1	13.6	15.1	6.6	8.7	9.3	10.5	13.4
Total	43.8	94.0	168.2	162.9	180.4	256.4	276.0	349.1	562.0	572.4	575.0	592.2	578.6	693.4
People's Republic of China	18.9	20.7	30.9	46.0	74.6	157.8	224.7	306.2	269.4	224.2	234.5	253.8	323.2	491.1
North-Korea	—	—	3.5	4.6	9.4	20.2	14.7	22.7	29.6	34.0	32.2	34.4	30.1	38.1
North-Vietnam	6.8	10.2	12.7	13.0	10.3	9.8	11.5	9.7	6.7	6.1	6.0	6.3	11.6	2.5
Trade Balance														
COMECON-countries	— 14.5	— 30.5	— 90.8	+ 3.3	— 1.1	— 38.5	— 63.9	— 76.1	— 333.6	— 339.8	— 233.3	— 145.5	— 42.0	+ 42.5
People's Republic of China	— 15.2	— 18.0	— 14.3	— 7.5	— 12.2	— 5.1	+ 20.3	+ 9.0	+ 18.9	+ 101.2	+ 156.3	+ 315.1	+ 255.0	+ 117.8

¹ Excluding the People's Republic of Mongolia and Cuba. ² Imports cif; exports fob. ³ Own calculations on the basis of 1 US \$ = 308.000 Y (basic quotation).

Sources: Ministry of Finance; UN: Commodity Trade Statistics, Series D (1962, 1963); OECD: Foreign Trade, Series C: Trade by Commodities, Imports and Exports (1964-1970); JETRO: "White Paper on International Trade Japan 1972" (1971); "Japan Exports & Imports — Country by Commodity", Compiled by Ministry of Finance, Published by Japan Tariff Association (1972).

pated for the first time in the Leipzig spring fair. But Japan did not change its approach. As recent as July 1969, the Japanese Foreign Ministry rejected a GDR trade delegation which wanted to discuss this problem although it had been announced that the delegation intended to effect purchases of goods in Japan to the value of \$ 400–500 mn. It was only on January 26, 1971, that Japanese, who have remained anonymous, signed a memorandum on the occasion of a visit by State-Secretary Beil which among other things envisaged the inauguration of a mutual trade office and consultation organ as well as the conclusion of a long-term trade agreement⁷.

On February 19, 1971, instead of the trade mission, a committee for economic relations between the GDR and Japan was constituted which decided, in its first session, to step up the GDR's exports to \$ 80–100 mn by 1975 and the import of steel and chemical products from Japan. The first trade agreement was concluded on October 20, 1971, and it is to remain in force for 4 years from 1972. Diplomatic relations were established between Japan and the GDR on May 15, 1973, both countries' ambassadors in Moscow having signed the relevant documents⁸. Eight Japanese firms were subsequently given permission to establish representative offices in the GDR⁹.

Japan has very topical reasons for wanting to intensify the economic relations with the COMECON-countries. On the one side, Japan's export economy, whose most important market is up to now the USA, finds itself in a position, as a result of Washington's economic measures, to direct its export efforts now also onto so far less exploited markets; in this sense East European countries come more and more to the fore as markets for Japanese industrial goods. On the other side, Japanese economic quarters are worried about the supply with commodities and raw materials being too onesidedly dependent, for some products, on certain supplier countries. Japan, for instance, imports nearly 90 p.c. of its crude oil from the Near East. Here especially the Soviet Union with its rich resources offers an interesting alternative.

The Siberia Project

The plan for Soviet-Japanese cooperation to develop Siberia is based on the agreement of September 1961. With the "Siberia Programme" the Soviet Union pursues the aim of activating Siberia's raw material treasures with the help of

Japanese capital and know-how. The Japanese look upon it as a possibility for the improving and long-term securing of their own supply with raw materials. The first conference of GOSPLAN and Japanese representatives on the exploitation of Siberia took place from March 14–23, 1966.

Table 2

Structure of Japan's Foreign Trade with the COMECON-states¹ and the People's Republic of China, North-Korea und North-Vietnam (1965, 1970–1972)

(in p.c. of total imports and total exports, respectively)

Partner-countries	Year	SITC – Groups of Goods ²			
		0–4	5–8	0–4	5–8
		Exports		Imports	
USSR	1965	8.0	90.5	70.1	29.9
	1970	1.7	96.1	74.5	25.1
	1971	1.9	97.0	75.9	23.9
	1972	1.3	97.6	73.3	26.3
GDR	1965	9.3	90.1	9.2	90.1
	1970	4.9	95.1	1.8	98.1
	1971	1.4	96.0	11.2	88.7
	1972	0.7	98.7	14.6	83.2
Poland	1965	17.1	83.7	92.0	8.0
	1970	24.4	75.6	50.5	49.4
	1971	18.0	82.0	85.6	14.3
	1972	5.0	94.5	85.5	13.8
Czecho-Slovakia	1965	6.4	93.4	74.2	25.8
	1970	3.3	96.1	24.4	75.6
	1971	4.5	95.3	41.5	58.4
	1972	3.4	95.9	41.4	57.9
Hungary	1965	43.8	56.2	18.8	81.2
	1970	12.1	87.8	46.8	52.9
	1971	4.9	94.5	41.8	58.0
	1972	7.5	91.5	45.4	54.3
Roumania	1965	11.9	88.1	98.8	1.2
	1970	7.8	92.2	56.6	42.9
	1971	3.1	96.7	41.2	58.6
	1972	2.3	97.6	36.4	63.3
Bulgaria	1965	9.1	90.9	18.2	81.8
	1970	2.6	97.4	98.1	1.9
	1971	2.4	97.5	90.6	9.4
	1972	1.9	98.1	81.9	17.9
Total	1965	8.7	90.1	70.8	29.2
	1970	3.6	94.7	67.0	32.7
	1971	3.1	96.0	73.6	26.2
	1972	1.9	97.2	71.6	28.0
People's Republic of China	1965	6.4	94.5	79.0	21.0
	1970	2.5	97.4	74.8	25.1
	1971	2.8	97.2	76.5	23.4
	1972	3.6	96.0	71.5	27.6
North-Korea	1965	1.2	98.7	62.1	37.9
	1970	2.6	92.2	71.1	29.9
	1971	2.0	97.6	71.1	28.7
	1972	1.6	97.6	69.3	30.6
North-Vietnam	1965	14.7	85.3	73.8	26.2
	1970	3.0	96.8	94.4	5.6
	1971	5.2	94.8	96.7	3.3
	1972	6.8	91.4	92.8	6.6

¹ Excluding the People's Republic of Mongolia and Cuba.

² SITC groups of goods: 0–4 = Food and beverages as well as raw materials and fuels; 5–8 = industrial products; 9 = unspecified goods (not mentioned).

Sources: OECD Foreign Trade, Series C: Trade by Commodities, Imports und Exports (1965, 1970); "Japan Exports & Imports – Country by Commodity", Compiled by Ministry of Finance, Published by Japan Tariff Association (1971, 1972).

⁷ See "Nachrichten für Außenhandel", Frankfurt, No 27, Feb. 3, 1971.

⁸ See "Frankfurter Allgemeine Zeitung", Frankfurt, No 112, May 15, 1973.

⁹ See "Frankfurter Allgemeine Zeitung", Frankfurt, No 153, July 5, 1973.

Subjects of negotiation were the deposits of natural gas on the island of Sakhalin and the oil fields of Tjumen¹⁰. It proved, though, that the Japanese, on account of the financial conditions made by Moscow, were interested in the two-bn-\$ project to a smaller degree than expected by the Soviets. For the same reason, other Soviet suggestions were not accepted: three centres of timber works, the exploitation of a copper mine in Eastern Siberia, and the development of the port of Nakhodka (investment sum of \$ 110 mn). A first result of the Special Committee, set-up in mid-1967, was achieved in 1968 in the shape of an agreement on a forestry project. Early in 1970 a skeleton-agreement on the development and modernisation of the Soviet ports in the Far East was concluded, because 18 p.c. of Japan's timber requirements come from the Soviet Union. These quantities of timber are, in view of navigation difficulties during the winter, shipped in bulk during the months of June to August. Japan credited \$ 80 mn of the total of \$ 300 mn required for the development of the port of Wrangel.

In the same year, Moscow changed its negotiating position: Up to then, and according to Japanese ideas, Sakhalin was to be developed first, and Jakutsk to follow. But at this later stage, the Soviets suggested first priority for Irkutsk to the detriment of the Sakhalin project because of the gas and oil reserves in Sakhalin allegedly being only one-fifth as rich as previously estimated. Also in view of the demanded 10-year credits, the reaction of the Japanese was one of restraint. It was not before December 6, 1971, that a Soviet-Japanese agreement about timber supplies was concluded under which a 12½-times increase was envisaged between 1972 and 1975 and a 16-times one (over the volume of 1972) during the period 1976–1981¹¹. An agreement in principle was reached on the exploitation of the oil fields of Tjumen in Western Siberia four weeks after Gromyko's Tokyo visit in January 1972. For this scheme, a realisation seems feasible whereas other suggestions by Moscow failed to impress the Japanese, partly because of lack of data about the projects¹². It also looks as though difficulties do not cease to creep up about financing the conditions demanded by the Soviets: The Tjumen project is supposed to cost in all \$ 2.5 to 3 bn, and Japan is expected to grant a 20-year credit of \$ 1 bn at the interest rate of 6 p.c.

¹⁰ See "The Oriental Economist", Tokyo, No 667, May 1966; "The Mainichi Daily News" – Monthly International Edition, Tokyo, No 209, May 1, 1966.

¹¹ To the international repercussions, especially on the Canadian timber deliveries, see "The Financial Post", Toronto, No 39 of September 23, 1972.

¹² For details see "The Oriental Economist", Tokyo, No 737, March 1972; "Moniteur du commerce international", Paris, No 1137 of March 2, 1972.

Obviously the Japanese are unwilling to fall short of certain perceptions about credit conditions in order to deal with the countries of the Eastern bloc – as, for instance, the delays of the Siberia project and the break-down of the Polish-Japanese negotiations about coal have shown.

Japan's Credit Policy

In the past, Japan's credit policy towards the countries of the Eastern bloc has been relatively restrictive: up to 1965 the Import-Export Bank has not given credits for more than 5 years; there were however terms of up to 8 years in cases of private credits. In view of the credit policy of the Western industrial nations, and the development of exports to the Soviet Union, the Japanese were prepared to prolong official credits to a period of 8 years and to secure two extra years on a private basis. Up to, and including, 1970 Japan gave the countries of the Eastern bloc 81 credits of more than 5 years duration (average duration 6.32 years) of \$ 324.315 mn – a volume corresponding to about one-third of the French, and rather more than half of the British volume, and far more than that of the other EC-countries¹³. In principle, Japan ranks too long a duration of credits and interest rates not in accordance with market conditions as development aid which, however, must be rejected in the case of Socialist countries. But in more recent times a tendency has shown itself of Japan also extending long-term credits to COMECON-countries.

In 1970 Japan practised a method of crediting that could become the pattern for the trade with state-monopoly countries whose foreign exchange reserves are meagre¹⁴: three Japanese firms concluded a credit agreement of \$ 100 mn with the Polish government, the credits running over a period of 7 years and carrying 6 to 7 p.c. interest; the purpose being that the Polish government would purchase Japanese goods for the equivalent. Japan, in turn, would import a total of 20 mn tons of coking coal from Poland during the 10 years after 1974. This is the first private credit agreement Japan concluded with a country of the Eastern bloc. Similar to the Eastern trade of the Western industrial countries, the Japanese increasingly try to find and realise also other forms of economic relations than merely the exchange of goods. So, in addition to the trade proper and the projects for cooperation with the USSR, the Japanese economy seeks an intensification of the licence-trade with Czecho-Slovakia (up to 1970 Japan exported 7 licences, and imported 2). Already in 1968 Japan initiated preliminary contacts

¹³ See "Arbeitsdokument der Europäischen Gemeinschaft" – Kommission – XI/128/71 D, origin: F of September 16, 1971.

¹⁴ See for details: "The Nihon Keizai Shimbun", Tokyo, No 400 of August 25, 1970.

with Hungary for the mutually utilising of data and know-how. In 1972 the first Japanese-Hungarian cooperation agreement was concluded embracing production cooperatives and mutually marketing of the products¹⁵. Poland, too, has been supplying licences to Japan since 1972. Following the signing of protocols between Japan and the COMECON-states, a continuation of this trend is expected.

Japan's China-Trade

At present, Japan looks extraordinarily optimistic upon the trade with China. Until recently the Sino-Japanese relations were of an ambivalent character: For one thing, Japan has always been an exceedingly important economic partner of Peking, but, for another, the political relations at times reached a stage influencing, and imperiling, the commercial links. The economic relations between Japan and the People's Republic of China improved sharply, when, after a conversation between Kenzō Matsumura and Tschou-en-Lai in September 1962, under a long-term agreement (1963-1967) of November 9, 1962, signed by Liao Ch'eng-chi and T. Takasaki the trade between the two countries was regulated. Ever since, the Sino-Japanese trade has been transacted firstly by the foreign trade companies, secondly under the so-called "L-T-Trade" and, thirdly, via the "Friendship Trade". In 1968 the "L-T-Trade-Agreement" was replaced by the "Memorandum-Trade-Agreement", which is valid for one year at a time. These arrangements meant Japan's recognition of China's "Three Principles": Peking is the only legal government of China; Taiwan is an integrated part of China; the Japan-Taiwan Treaty must be revoked. Unity in politics and economics is another one of the guiding principles. The result has been a substantial increase of the Sino-Japanese exchange of goods. Following particularly the new orientation of America's China-

policy, which began in July 1971, Tokyo has obviously been willing to make political concessions in order not to endanger the trade and other business with China which shows itself foremostly each time on the occasion of mutual communiqués about the prolongations of the "Memorandum Trade"¹⁶. At the time of mutual diplomatic recognition on September 29, 1972, the Japanese business world presumed that the exchange of goods with China could go up to \$ 11.3 bn by 1982. Although this estimate implies suppositions about Peking's foreign trade policy, which, with the possible exception of the sphere of credits, must at present appear to be rather vague¹⁷, the recent growth rates so far seem to speak at least for a part-realisation of these prognoses.

On the whole, it is to be expected that Japan's trade with the Socialist countries will in coming years grow stronger than the Eastern trade of the West European states. In spite of the relatively high level of the trade with China and Russia there seem still to be big "reserves" for Japan, particularly in the sphere of large-scale installations. This especially also applies to the trade with North-Korea. An unofficial trade agreement concluded in January 1972 and valid until the end of 1976, aims at an increase of the exchange of goods to \$ 390-520 mn and at long-term credits. The then also envisaged establishing of trade representations became reality already in February and July 1972¹⁸. Over and above all this, there are very intensive Japanese efforts for improved relations with North-Vietnam which, in view of the reconstruction programme, show huge capital requirements.

¹⁶ See for details: CEPES (publisher): Die Wirtschaftsbeziehungen zwischen der Volksrepublik China und den westlichen Industriestaaten. Edited by Bernd Kunze, Bonn 1973, page 92 ff, specially page 100 ff.

¹⁷ Whereas Red-China has, following the Sino-Soviet breach, so far rejected all credit offers, there have since the beginning of 1973 been talks about credits, also from Japan.

¹⁸ For further particulars see "The Japan Economic Journal", Tokyo, No 475, February 1, 1972, No 478, February 22, 1972, and No 499 of July 18, 1972.

¹⁵ See: Hungarian Chamber of Commerce: "Hungaropress", Budapest, No 12 of December 1972.



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