

# **January 9, 1991**

## **Conversation between Aleksandr Yakovlev and Kumagai Hiroshi**

### **Citation:**

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### **Summary:**

In this conversation Ozawa Ichiro's envoy Kumagai Hiroshi outlines a potential islands-for-cash deal, whereby the Soviet Union surrenders the "northern territories" to Japan in return for Japanese credits and investments up to the amount of 26 billion USD.

### **Original Language:**

Russian

### **Contents:**

Translation - English

## MAIN SUBSTANCE OF A CONVERSATION

[between] Cde. A. N. Yakovlev and H. Kumagai, special envoy of I. Ozawa, the Secretary General of the Liberal-Democratic Party of Japan.

9 January 1991

In accordance with instructions I received H. Kumagai, a confidant of Ozawa, the Secretary General of the LDP of Japan. The main substance of what he said in the course of the conversation comes down to the following.

H. Kumagai stressed from the very beginning of the conversation [handwritten: He said] that he would [handwritten: not] like to seek a formula of "small deals", but to present and discuss the overall principled approach of I. Ozawa to the prospects of Soviet-Japanese relations. In his words, the LDP Secretary General assessed the prospects of searching for a "third way" in the relations of the two countries, but this very idea is encountering growing support in the mass media and in Japanese public opinion.

I. Ozawa thinks that Soviet-Japanese relations are now at such a point when both sides need to make political decisions for the future of these relations. Such decisions first of all need to be applied to the territorial question and the prospects of economic cooperation between the USSR and Japan. Moreover The principal starting factor here is that a combination of these two decisions should not be a deal. It would be advisable for the sides to sort of change places: what is desirable for the USSR could be expressed as the initiative of Japan. And, on the other hand, what is desirable for Japan, could be clothed in the form of an initiative of the Soviet side in preliminary form and on the basis of a number of consultations with his associates and conversations with Soviet representatives I. Ozawa outlined a plan of possible actions with respect to which "there are, of course, linkages and conditions". This plan reflects a possible initiative of Japan on the question of economic cooperation - "with the understanding of how much any Japanese politician depends on the territorial question in his actions" - and consists of two parts.

The first part of it includes measure of a financial and economic nature directed at promoting a very rapid overcoming of the financial and economic crisis in the USSR and thereby a stabilization of the domestic situation in the country. At various times the Soviet side has named the figure of three-four billion dollars for these purposes. I. Ozawa notes this figure as an upper limit - up to four billion dollars in the form of unlinked [ne svyazannye] credits for the purchase of consumer goods or for other purchases and measures, which would lead to the stabilization of the financial and economic situation in the USSR.

The second part of the plan concerns the mid- and long-term prospects for economic cooperation, is linked to the territorial question and, in turn, also consists of two parts.

One - those the directions and kinds of such cooperation which will be done by private capital from the Japanese side. Here firms with the participation of government bodies have already outlined and tentatively worked out specific projects, the cumulative cost of which during the first five years of realization of the project would be about eight billion dollars, including approximately one billion practically right away from the moment of the beginning of their implementation. The appropriate firms are ready to begin work immediately after receiving the "signal" from the Japanese government. However, they need either financial guarantees from the government of Japan or its direct financial participation for the accomplishment of these projects.

The other component of the long-term part of the economic cooperation plan is projects of the large-scale and comprehensive exploitation of regions and sectors which in their scale are beyond private capital or, done in commercial conditions, would be turned into an unsustainable credit burden for the USSR. Therefore such projects require the direction participation of Japanese government bodies for their accomplishment. I. Ozawa's goal here, declared H. Kumagai, is to maximally bring the conditions of such participation to free aid. Of course, this cannot be absolutely free aid inasmuch as the USSR is not in the category of a developing country. But the terms could stipulate, for example, 30-year credits at 2-3 annual percent "which is practically tantamount to free aid". The LDP Secretary General, in the words of his envoy, is confident that it would be possible to work out a formula of such cooperation. When this was being done, the cooperation would be supplemented by sending technology and skilled personnel from Japan, which is also the same as giving free aid. In all, the cooperation in this category could come to 10 billion dollars. Thus, the cumulative volume of the Soviet-Japanese economic development plan being proposed by Ozawa would come to about 22 billion US dollars.

In Soviet-German relations their definite amount of development right now is about 17.6 billion dollars, but this amount also includes compensation for the withdrawal of Soviet troops from Germany. H. Kumagai stressed, the Japanese side would be ready to consider, above the 22 billion dollars designated above, any questions of compensation for the withdrawal of the Soviet troops, their quartering in the continental part of the USSR, for the structures left on the islands, and for the resettlement of the civilian population to the continent if some of them do not want to stay and prefer such resettlement. Japan has experience in compensation of this sort, to the US for the handover of Okinawa, which would be about four billion dollars at current prices. A specific determination of the articles and size of such compensation is a question for special negotiations. H. Kumagai noted, right now the Japanese side is saying only that it is ready in principle to consider such questions and such negotiations. All the enumerated kinds of compensation would be possible in the transfer to Japan right away of the two islands, as was envisioned by the 1956 Declaration.

"The approach of Secretary General I. Ozawa to the solution of the territorial question assumes that this also would be a two-stage process". The first stage would provide for the return of the sides to the 1956 Declaration. The second would decide the question of two islands which remained. If the approaches of the USSR and Japan existing right now collide here, then no forward movement will result. "Therefore any decisions on this question should not mean a review of the results of the Second World War".

At the present time both the Soviet and Japanese sides maintain an uncertainty with respect to where the border lies. H. Kumagai said further, we propose coming to the signing of a peace treaty on the basis of an understanding that the first definition of the borders occurred in 1855 on the basis of the Russian-Japanese treaty of that time. Under such an understanding the two islands which remained will be viewed in another context, and Japan is aware that these islands are in a different capacity, there is a population and population centers on them, and that Soviet people live there. A formula could be used with respect to these islands which was previously employed toward Okinawa: "the potential sovereignty of Japan", while administrative authority would be preserved by the Soviet Union for a stipulated period. During the visit of USSR Minister of Foreign Affairs Eh. A. Shevardnadze to Japan in September 1990 the Soviet side allegedly said that this period could be 10 years. This could be taken as a basis, inasmuch as in the 1956 Declaration it was stipulated that the handover of the first two islands would occur after the signing of a peace treaty. It will be possible for such a principled formula to find its specific expression.

In accordance with the 1956 Declaration the handover of the first two islands would be accomplished over several months, possibly a year, after the signing of a peace

treaty, its ratification by the parliaments of the two countries, and it comes into legal force. This concerns the islands Habomai and Shikotan. The unfolding of the first phase of the second part of the economic cooperation plan would begin simultaneously with the signing of a peace treaty – the realization of measures of extreme necessity, that is, of the first part of the plan, could be begun even earlier, in the clear expectation of the signing of a peace treaty. In addition, the Japanese side would be ready for maximum development at this time and all other ties, exchanges, and relations.

H. Kumagai said in the concluding part of the conversation that in Japan they know and understand the entire complexity of the current situation in the USSR. But the domestic political situation in Japan itself is also not simple. “If what I’ve said today became known in Japan a strong wave of angry condemnation would surface. For the amount of the plan exceeds the size of the country’s defense budget. But I. Ozawa is fully determined to act, believes in the prospects of a ‘third way’, has taken everything into consideration, and is confident that he would be able to put down any resistance”.

However, continued H. Kumagai, according to all forecasts the domestic political situation in Japan will remain stable only until April 1991. Of course, in any alignment of domestic forces Japan will perform those international obligations which it takes upon itself. But after May of this year, especially during the second half of the year, the center of attention in Japanese foreign policy will go in an American direction. Then the US-Japan-USSR “triangle” will have to be completely tuned out and it will already be about “Japanese aggression and American defense” – this is how the course of things will be perceived. The US is far more significant for Japan than Europe, both economically and with respect to military and strategy. But the region of China and [ATR] [the Asian-Pacific Market] is also more important than Europe. Of course, Soviet-Japanese relations will not be broken off. But if a qualitative leap, a breakthrough, does not occur in them before that, they will remain in their current situation: something like a slender thread.

“Economically not a single person in Japan thinks these four islands are deserving of interest. For Japan they are a psychological problem. However, when we discuss similar problems with China or Korea, then we understand that Japan caused harm in the course of the war. In this case it experienced damage itself from the Soviet side. The problem of the islands has become a symbol, the elimination of which would open the way to partnership in the very broadest and far-reaching cooperation between Japan and the USSR.

In Tokyo they have made deep, expert analyses: of all countries Japan is the only one which could give the USSR economic aid. We are able to do this: right now Japan is financing 50% of the US budget deficit. Our private capital exceeds the capability of the government many times over. But with respect to the Soviet Union in the political situation it needs what only the governments of the two countries can create.”

H. Kumagai said further, our proposals are not all of what Japan is capable. If intensive economic cooperation starts then private capital will also go into the USSR energetically. It is ready for and wants this, but business circles, like the government itself, are waiting for a normal political atmosphere. However, neither I. Ozawa nor any other politician will be able to do anything without forward movement on the territorial question. But trying to undertake anything will end up being doomed to political death. [K]anemaru is a strong and influential figure, but in relations with Korea and Iraq he tried to go against conventional ideas, and a very powerful attack landed on him. But questions of relations with the Soviet Union are much more serious in the eyes of public opinion.