

JAPAN and the MIDDLE EAST

Edited by
Edward J. Lincoln

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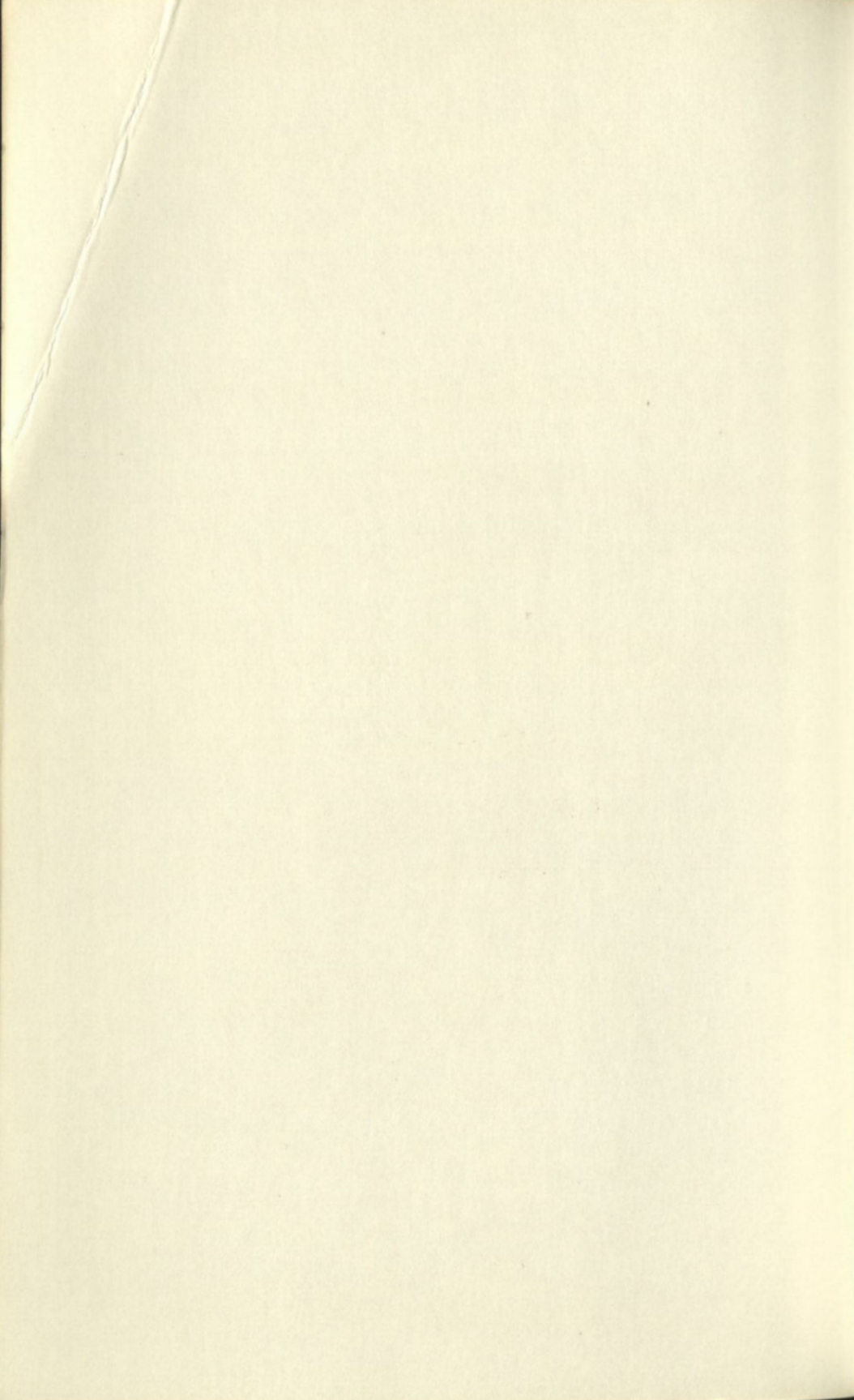


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Introduction

Japan's foreign policy involvement with the Middle East dates back only as far as the first oil crisis in 1973. Realizing for the first time that its economic security was tied to this volatile region, Japan's foreign policies have moved to protect its own economic interests and to play a more active, albeit cautious, role in the region's politics. The growing significance of the relationship between Japan and the Middle East inspired this study.

On June 1, 1990, the Middle East Institute held a conference, "Japan and the Middle East," at the National Press Club in Washington, DC which brought together representatives from the academic, government, and business communities to examine this issue in detail. The articles and speeches in this volume were presented at the conference.

The conference occurred prior to Iraq's invasion of Kuwait on August 2, 1990, and the international crisis which ensued. The contributions in this volume, however, provide a useful and important look at the broader and more long-term factors which have shaped Japan's approach to the region, and which explain much of Japan's behavior in this crisis.

The fundamental cause of Japan's interest in the region has been its high dependence on oil as an energy source and its high dependence on the Middle East as a source for that oil. The paper by Ronald Morse details this dependency and the way in which the need to obtain oil has moved Japan toward a closer relationship with the region. Douglas Ostrom's paper expands this perspective to the overall trade relationship of Japan with the Middle East, and reinforces the view that the price of oil has been the major determinant of trade flows in both directions (as well as having implications for Japan's trade with the United States through exchange rate effects). Both authors, writing prior to the Iraqi invasion,

expressed some concern over the possibility of a third round of oil price increases in the 1990s.

Robert Orr takes on a different element of the economic relationship, looking at Japan's foreign aid to the region. He also sees a strong economic component, through resource diplomacy—aid dispensed in the hope of gaining greater assurance of supply. But Orr also points out that strategic aid—that given to further the foreign policy initiatives of the United States rather than solely for Japanese self-interest—has also been an important element in Japanese policy, while humanitarian aid has been a distant third as a motive.

Ambassador Ryohei Murata and Masamitsu Oki, director of the Foreign Ministry's Second Middle East Division, detail the history of Japan's diplomatic relationship with the region since the first oil crisis in 1973. They emphasize Japan's commitment to peace in the region and the rapidly growing expertise within Japan on regional issues (starting from a very small base in the early 1970s). They also note that, constrained from military action by its constitution, Japan has followed a policy of maintaining an ongoing political dialogue with all parties, as well as a policy of increasing financial aid to promote peace.

The two Japanese academic participants, however, emphasize the serious dilemma which Japan has often faced in dealing with the region. Both Kazuo Takahashi and Yasumasa Kuroda note that the goal of maintaining access to oil, or pursuing a Japanese-style approach to peace in the region, is sometimes in conflict with the goal of maintaining good relations with the United States. Takahashi details Japan's approach to Iran and Iraq during and after the protracted war between these two countries, while Kuroda discusses Japan's behavior on the thorny question of the Arab-Israeli conflict. In both cases one sees the effort to maintain a dialogue with both sides—an effort that has not always pleased the United States.

Contradiction between the goals of a secure oil supply and harmonious relations with the United States is apparent in virtually all the presentations at the conference. Nevertheless, Richard Murphy argues in his paper that there has been no serious policy conflict between the two nations in approaching the region; we can live with the differences in approach and still share important fundamental goals such as peace and stability.

Many of these points apply to the recent Iraqi invasion of Kuwait. One can imagine the sense of disappointment in the Japanese government after working to improve relations with Iraq since the end of the Iran-Iraq war. Virtually all of the policy initiatives taken by Japan in the late summer of 1990 were justified by the Japanese government in terms of responding to US pressure rather than as a wholly independent judgement by the Japanese government. The dilemma in Japanese policy making toward the region persists.

The Middle East Institute greatly appreciates the support of the Japan-United States Friendship Commission, which made this conference possible. MEI also

appreciates valuable assistance from both the Committee for Energy Policy Promotion and the JGC Corporation in Tokyo.

Andrew T. Parasiliti of the Middle East Institute was chiefly responsible for the administration of the conference and overseeing this publication. Tsutomu Kono of Columbia University provided valuable guidance as a consultant for the study. Kristina Palmer of the Middle East Institute also assisted in organizing the conference and publication. Robin Surratt of the Middle East Journal helped edit the papers. MEI interns Catherine Sweet of Cornell University and Mark Zaineddin and David Gordon of American University were involved in preparing the chronology and bibliography.

Edward J. Lincoln
Editor

KEYNOTE ADDRESS

Ryohei Murata

In the 38 years of my diplomatic career, I have been most extensively involved in three areas: Central and Eastern Europe, bilateral relations with the United States, and international economic issues. My involvement with the Middle East started only in 1973 when the October War broke out, at which time I was with the Japanese embassy in Washington. My work related to the Middle East, therefore, began in the later stages of my career.

Once involved, however, I became addicted to the Middle East. Many of you, I am sure, share this incurable condition. In order to share the joy of observing the Middle East, which, I must admit, may sometimes be exasperating due to the complexity of it, I wrote a book entitled *The Middle East: Portrait of a World*. The book is available only in Japanese, but like any alert *suq* merchant, I thought I should mention it to so many potential customers. I hastily add that I have no intention of bargaining over the price.

Today, I would like to share some of my personal thoughts, not as the Japanese ambassador to the United States, but as a Japanese who feels a strong sense of involvement in the affairs of the Middle East. Although the Japanese people are not as concerned with the Middle East as I believe they ought to be, Japan's relations with the Middle East have been steadily growing year by year.

Turning back through the pages of history, we find records of Japan's exchanges with Iran and other countries through the "Silk Road," and Japan's exchanges with the Islamic empires via India and China through the so-called Silk Road of the Sea. The Middle East has long existed in the consciousness of the Japanese public only as a far-away geographical entity, and the scant historical awareness by the Japanese of the Middle East has left no room, for example, for the harboring of anti-Semitism, not even for an adequate understanding of anti-Semitism. Islam never took root in Japan and most Japanese are still ignorant

of this world religion. It was the oil crisis of 1973-74 which first brought a strong awareness of the Middle East to the general public in Japan. From that time on, Japan began to develop a Middle East policy worthy of the name. Let me cite a few concrete examples of this changed diplomatic approach.

First, Japan established diplomatic missions in rapid succession in eight countries of the region after the first oil crisis: Jordan, Libya, the United Arab Emirates, Qatar, Oman, Bahrain, and the two Yemens (which were recently unified as the Republic of Yemen). At the present time, Somalia, Mauritania, and Djibouti are the only member countries of the Arab League with which Japan has not yet established full diplomatic relations. Likewise, nine Arab countries established diplomatic missions in Tokyo during the 1970s. Nowadays, ambassadorships to the major Middle Eastern countries are drawing the cream of the Japanese diplomatic service.

Second, before World War II, there were only about a dozen Japanese diplomats who had been trained to speak Arabic. In the spring of 1974, when I took charge of Middle Eastern affairs at the Ministry of Foreign Affairs, there were less than 30 Arabists in the entire diplomatic service. Today, they number about 100.

Third, prior to the first oil crisis, there had been but one Arab head of state, King Faisal of Saudi Arabia, who had paid an official visit to Japan. The recent increase in the number of high-level official visits to Japan from Middle East countries is clearly representative of the increased exchanges between Japan and the region, even though they still fall short of the intensity of exchanges we have with the United States, Asia and Europe. In July, President Zayid ibn Sultan al-Nahayan of the United Arab Emirates paid an official visit to Tokyo. I read the reports of his visit with delight as a former ambassador to that nation who had tried to no avail to bring about such a visit.

Let me now identify a few areas in which Japan has made a conscious effort to deepen its relations with the Middle East. First, Japan has made a positive effort to articulate its position on various aspects of the Arab-Israeli conflict. My country has tried to enhance its political dialogue with all parties concerned. I vividly recall, for example, the first visit of Palestine Liberation Organization (PLO) chairman Yasir Arafat to Japan in 1981, made in an effort to open a dialogue with the Palestinians; I was heavily involved with this visit. At the same time, many Japanese, myself included, noticed the extraordinary situation of Japanese foreign ministers and other members of the cabinet deliberately avoiding visits to Israel. Finally, in the summer of 1988, when I was vice minister for foreign affairs, Sosuke Uno made the first official visit to Israel by an incumbent foreign minister of Japan, marking an important milestone in Japan's Middle East policy. Late last year, Chairman Arafat returned to Japan, and Foreign Minister Moshe Arens of Israel also paid a visit. It is my view that Japan should follow up on these steps by further strengthening its dialogue with Egypt, Jordan and Syria.

Rather than dwelling on current Japanese policies, which are covered in the papers for this conference, I would just like to reiterate that Japan is disappointed by the lack of progress in holding elections in the Israeli-occupied territories—with the issue of the legitimacy of Palestinian representatives being used as an excuse—despite the PLO having made long-awaited policy changes. I am also deeply concerned about the recent situation in the occupied territories; if left unsolved, peace in the Middle East will become an unattainable goal.

Second, let me address Japan's relations with Iran and Iraq, two countries with which we have maintained traditionally friendly relationships. Since the unfortunate outbreak of war between Iran and Iraq in 1980, two Japanese foreign ministers, Shintaro Abe and Tadashi Kuranari, visited both countries, calling for peace, although no tangible results were produced. While sitting in the United Nations (UN) Security Council from 1987 to 1988 as a non-permanent member, Japan tried to explore conditions for a cease-fire which would be acceptable to both sides. I remember well attending the Security Council as Japan's representative on the occasion of adopting Security Council Resolution 598. Behind this, significant diplomatic effort by Japan was undertaken in close coordination with West Germany and Italy, both of which also were Security Council members at that time.

Japan has tried to maintain good relations with Iran since the 1979 revolution. This puts Japan in a unique position since that country's relations with the United States and some European countries have been cool. Japan has sometimes acted as a conduit to accurately transmit Iran's views to other countries, or to convey the views of other countries to Iran. While uncertainty prevails in the region, this limited and quiet Japanese role can acquire a greater degree of significance through maintaining the required stability.

Third, I would like to note that Japan's relations with Saudi Arabia and other Persian Gulf states have achieved a certain level of maturity. Japan's dialogue with the Gulf Cooperation Council (GCC), as well as its bilateral dialogue with those countries on important international political and economic matters, has deepened significantly compared to when I was ambassador in Abu Dhabi in the late 1970s. Still, I feel that Japan needs to do more to develop further its relations with these countries.

I will leave the implications of U.S.-Japan relations on the Middle East to my American friends, but I would like to make a few points on how Japan sees this bilateral relationship affecting the Middle East. Future developments in the oil market are difficult to predict, and there may well arise situations in which U.S. and Japanese interests do not necessarily match. Our ultimate goals and aspirations in the Middle East, however, are basically identical. Briefly, these common interests are to ease the political volatility in the region, achieve political stability, maintain stable oil supplies to Western countries, and promote economic development in the region.

Amid the changes in East-West relations, the tacit objective of preventing the expansion of Soviet influence in the region is no longer as important as it once

was. Instead, there is deep concern about the danger of various forms of politico-religious "fundamentalism," as so eloquently stated in Jordanian crown prince Hassan's May 26, 1990, op-ed article in the *New York Times*.

In examining the Middle East in the context of U.S.-Japan relations, it is appropriate to make the following three policy considerations, which are similar to those involved in examining our bilateral relations with respect to other parts of the world. First, what kind of impact does the Middle East have on U.S.-Japan relations? Second, if differences in interests and positions between the United States and Japan exist with respect to the Middle East, how should these differences be coordinated? Third, what should the United States and Japan do with regard to the Middle East within the framework of the global partnership of the two countries as enunciated at the bilateral summit in Palm Springs in February 1990?

Under the first criterion, I believe that no one will argue over the extreme importance of the supply of oil in our mutual policies toward the Middle East. In 1987, bitter voices were raised in the United States saying that Japan was not making any meaningful contribution to securing the oil supply line, for which the United States, together with some Western European countries, was busily deploying its navy in the Persian Gulf.

As a matter of fact, in October 1987, the government of Japan came up with a significant policy package that included installation of a sophisticated navigational aid system along the Gulf coast countries, provision of additional economic assistance to Oman and Jordan in the amount of \$200 million and \$300 million respectively, provision of \$20 million to the UN peacekeeping efforts in the Gulf, and an increased financial contribution to the maintenance of U.S. military forces in Japan (bearing in mind that these forces could be deployed to the Indian Ocean and the Gulf). Unfortunately, this decision by the government of Japan has been largely ignored in the United States.

This leads to a point on U.S.-Japan security arrangements. Needless to say, U.S.-Japan security arrangements are designed to provide for the defense of Japan and to deter possible aggression in the Far East. Both the history of these arrangements and the specific provisions of the treaty reflect these realities. In practice, however, U.S. bases in Yokosuka and elsewhere in Japan serve as extremely important logistical facilities for U.S. forces, especially the navy, to maintain their presence not only in the Western Pacific but also in the Indian Ocean.

With regard to the second criterion, we must note that despite the fundamental identity of U.S. and Japanese interests in the Middle East, there can be considerable differences in position which may lead to unnecessary friction over the actions of the other country. Currently, there are two primary points of divergence in Japanese and U.S. positions concerning the Middle East which may bring about occasional differences of approach to a given situation. These are relations with the PLO (that is, attitudes toward Palestinian positions in the Middle East dispute) and relations with postrevolutionary Iran. Similar differ-

ences exist between the United States and certain European countries with respect to these two issues, and I do not believe that Japan's relations with individual countries in the Middle East warrant it becoming an issue in U.S.-Japan bilateral relations unless either or both countries seriously mishandle them. The key is to be alert and prudent toward each other's sensitivities while not losing sight that slight differences in positions sometimes make possible a division of roles which works to the benefit of all parties concerned.

On the third criterion, U.S.-Japan joint efforts in the Middle East within the framework of the U.S.-Japan global partnership will certainly benefit the region, especially in the area of economic and technical cooperation with the non-oil producing countries. As you all know, the bulk of U.S. aid to the region flows to Israel and Egypt. The atmosphere on Capitol Hill concerning foreign aid is very harsh. In the U.S.-Japan concept of global partnership, discussions concerning our bilateral office of development assistance (ODA) programs for the region are increasingly focused on areas such as Poland, Hungary, the Philippines, and Central America. However, Japan's ODA to countries such as Jordan and Oman in the Middle East, which is undertaken on our own initiative, should also be evaluated in the context of the U.S.-Japan global partnership, given the importance of these countries to both of us. Aside from economic assistance, U.S.-Japan cooperation on terrorism sometimes has the Middle East as its focal point. In addition, the "trialogue" on global issues among the United States, Japan, and Europe—whether on the environment, debt or health services—holds much potential benefit for the Middle East.

Our involvement in the Middle East and elsewhere will continue to be unique because of Japan's commitments never to use military force or to export weapons or military technology. I also consider it fortunate that, unlike East and Southeast Asia, the Middle East is a region where, historically, Japan has clean hands. Middle East issues also remain insulated from Japan's domestic politics.

As a diplomat with some experience in the Middle East, I think it is incumbent on Japan to further promote exchanges with this region. It has been a while since a Japanese prime minister has visited the Middle East. The last and only such visit was by Prime Minister Takco Fukuda in 1978, when he travelled to Iran, Saudi Arabia, Qatar, and the United Arab Emirates during my tenure as ambassador to the emirates. I hope that Prime Minister Toshiki Kaifu will visit the region in the not-too-distant future.

Finally, it is of fundamental importance that Japan engage in close consultations with the United States in its Middle East dealings, especially in the fields of politics, security and energy. Officials from the U.S. Department of State and Japan's Ministry of Foreign Affairs who deal with the Middle East have held regular consultations for the past 10 years. This has been a fruitful practice, one which I hope will be continued and strengthened. I also welcome the wider exchange of views between the non-governmental experts of Japan and the United States which will take place in this conference.

JAPAN AND OPEC IN THE GLOBAL ENERGY MARKET

Ronald A. Morse

Petroleum makes up the single largest industry in the world, requiring tremendous investments for extraction, refining and distribution. Petroleum and its products are essential to the continued economic growth of the developed and developing world, but like water and air, oil was taken for granted until it became a scarce commodity. The perception of the value of petroleum, as we all know, was transformed by events in the Middle East in 1973. This is a subject of many dimensions, but since many of the economic and political aspects of Japan-Middle East affairs are covered in the other contributions to this conference, I will limit my comments to Japan and its relations with the Organization of Petroleum Exporting Countries (OPEC).

The oil crises of the 1970s ushered in a new era of economic and political relations between the users and producers of oil, and specifically between Japan and OPEC nations. While the intensity of these relations has fluctuated with the availability and price of oil, the general trend has been toward more mutual understanding and cooperation. Although the 1980s was not a particularly close period in these relations, the current world oil market situation has once again given both sides the incentive to look for more ways to cooperate.

Petroleum was cheap and plentiful before the first oil crisis. Even today, it remains the preferred energy source because it is easy to handle and store. Also, most of the engines and energy-intensive equipment developed in the Western world have been designed around the use of oil and oil products. For a consumer country like Japan, plentiful, cheap oil is the best of all energy supply situations, but the countries that control the vast petroleum resources have sought to maximize their revenue from the supply of crude oil. To do this they have pushed the price of oil up to what they consider necessary to achieve an appropriate

return on their investment. The definition of what is appropriate brings the producers and consumers into conflict.

Japan and OPEC are thus on opposite ends of the consumer-supplier equation; consequently they have very different objectives in energy markets. The goals and objectives of OPEC, the Asia-Pacific Region, and Japan are considered below.

OPEC

The Organization of Petroleum Exporting Countries is a loose federation of developing countries with large accessible reserves of petroleum. Although many people will argue that the OPEC cartel, given the large disparity in member-country oil reserves, has little impact on oil markets, there is no doubt that the large producers—Saudi Arabia, Kuwait, Iraq, and Iran—can shape market prices.¹ Controlling the price of oil by managing supply is OPEC's single-minded strategy.

At the same time, as table 1 shows, the Middle East accounts for only about one-third of world crude oil output, placing it in competition with other producers. As prices rise there is a strong incentive for other oil producers to enter the market. This competition accounts for the constant fluctuations in price and supply.

During its 30-year history, OPEC has evolved from a small group of five countries seeking greater control over oil supplies—Iran, Iraq, Kuwait, Saudi Arabia and Venezuela—into a loose association of thirteen states seeking to coordinate their activities on oil-price management and, more recently, on downstream refining and investment.² As a commercial cartel, OPEC has a supply psychology—to control supply and thus the price—and then, if possible, to translate this into effective political influence on other issues, mainly Arab-Israeli relations though there is some disagreement over the use of oil as a political weapon. Crude oil production by the OPEC members is shown in table two. Despite OPEC's relatively low share of current world production, OPEC's possession of about 77 percent of proven world oil reserves—and with petroleum accounting for about 38 percent of worldwide energy consumption: 20 percent gas, 30 percent coal, 7 percent hydropower, and 5 percent nuclear—positions it to influence world energy markets. OPEC's ability to cooperate, however, depends upon the world oil-market situation and the ability of its members to get the income flow they want. This has kept them divided and reduced the effectiveness of OPEC as a cartel.

1. Ian Skeet, "OPEC—Another Decade," *Geopolitics of Energy*, vol. 12, no. 1 (January 1990).

2. The other members joined in this order: Qatar (1961), Indonesia (1962), Libya (1962), Algeria (1969), Nigeria (1971), Ecuador (1973), the United Arab Emirates (1974), and Gabon (1975). Not all OPEC countries are in the Middle East, and Iran and Indonesia would not be categorized as Arab.

TABLE 1
Regional Oil Production
(in percentages)

	1973	1979	1985	1986	1986	1988	1989
Middle East	39.3	33.8	18.9	21.8	23.3	26.7	27.0
United States	15.9	13.6	16.7	15.5	14.8	14.5	12.9
North Sea	0.8	3.1	6.4	6.3	6.3	6.8	5.9
Mexico	0.0	2.3	5.1	4.4	4.7	4.8	4.4
Communist Countries	16.8	22.7	27.7	27.5	27.8	28.0	25.8
Other	27.2	24.5	25.2	24.5	23.1	19.2	23.5
Total barrels per day (in thousands)	57,510	62,810	53,610	55,860	58,070	55,870	59,380

Source: Adapted from *Nihon Keizai Shimbum*, May 13, 1990, p. 21.

The 1980s saw a wide swing in the price and availability of oil. In the early 1980s, because of relaxed supply circumstances, OPEC members cooperated less among themselves to limit production levels. Subsequently, the Iran-Iraq conflict ended and non-OPEC oil production in the United States (Alaska), the Soviet Union, the United Kingdom, and China rose. By 1990, however, the oil market

TABLE 2
Organization of Petroleum Exporting Countries

Country	Crude Oil Production in Thousands of Barrels Per Day 1988
Algeria	634
Ecuador	309
Gabon	175
Indonesia	1,159
Iran	2,285
Iraq	2,599
Kuwait	1,411
Libya	1,054
Nigeria	1,379
Qatar	315
Saudi Arabia	5,286
United Arab Emirates	1,507
Venezuela	1,662

Source: Compiled by the author.

had tightened, non-OPEC supply sources had levelled off, demand (especially in Asia and the United States) was on the rise, and OPEC was more conscious of the need for cooperative schemes. With this reversal of the energy situation came a change in attitudes between Japan and OPEC.

The Asia-Pacific Region

The Japanese view their energy options within the global energy supply-and-demand framework. Although demand for oil in general may slow down in the 1990s (especially in certain regions of the world), it is in their own backyard of the Asia-Pacific region that the greatest rise in demand is likely to take place.

In the Asia-Pacific region (excluding China, but including the United States), nearly 50 percent of the energy demand is for oil, and that demand is growing at an average annual rate of 5 percent or more. Throughout the region, total primary energy demand is expected to grow at an average annual rate of 2.4 percent in the 1990s.³ Of the 1 million barrels a day of anticipated demand increase for oil imports for the Asia-Pacific region over the next few years, one-half will come from Middle East sources. If oil prices stay within the projected \$17- to \$22-per-barrel price range, the region's economic growth can proceed, by most estimates, without serious economic consequences. It is the fear that demand will exceed supply and that price increases will dampen growth that currently worries the Japanese.

One result of this rise in Asian regional energy demand has been to stimulate plans for cooperation on energy issues in at least two forums—the Pacific Economic Cooperation Council (PECC) and the new ministerial-level Asia Pacific Economic Cooperation body (APEC). Indonesia, an Asian member of OPEC, will be central to both these regional discussions. Regional cooperation will also take place within the bilateral and multilateral International Energy Agency frameworks established in the 1970s.

Japan's Relationship with OPEC

As a country nearly devoid of natural resources, Japan has had to deal with the question of its foreign dependency on oil for over a century. Before World War II it followed the path of the other imperial powers and colonized the areas and resources it needed. In the post-1945 era, Japan has had far fewer options in its dealings with foreign suppliers of essential commodities.

Although the Japanese would prefer to have the price of oil (as well as the quality and quantity) decided by an independent market mechanism, the politics

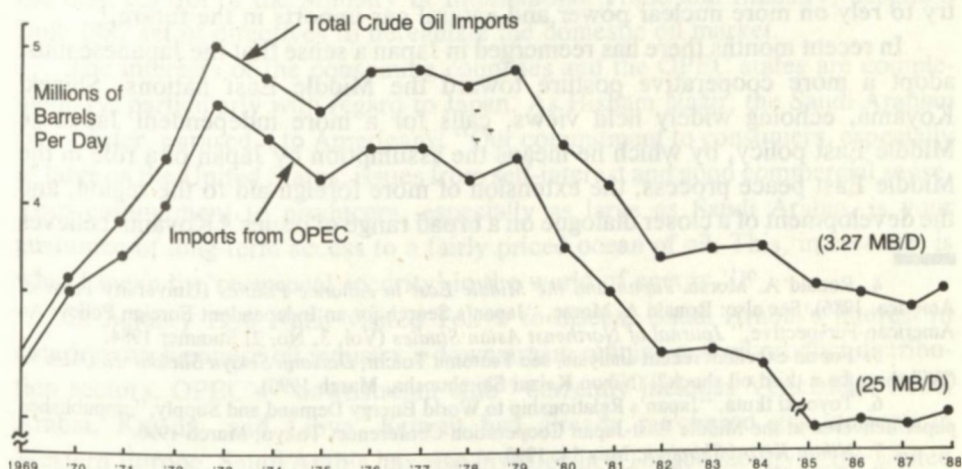
3. *Nihon Keizai Shimbun*, January 24, 1990. Also see Mitsuru Miyata, "Energy Demand and Supply Forecast for the Pan Pacific Region in the Year 2000 and Tasks for Energy Cooperation." Unpublished paper, Institute of Energy Economics, Tokyo, Japan.

of oil are not so neat and tidy. Japan has relied on the United States to maintain security in the Middle East and remains poorly informed for a major nation about developments there, despite the incentive to become better informed since 1973. Japan's links with the Middle East have no colonial or military dimension and because of Japanese domestic constitutional and other constraints, Tokyo has not been able to barter arms exports for oil as some countries have.

Thus, Japan has a limited set of options. It is forced to employ limited diplomatic tools—foreign assistance, trade, technology transfers, and special oil deals to its OPEC suppliers. The major options for Tokyo and other large importers have been to hedge against energy shortfalls by building oil stockpiles, investing in alternative energy technologies, diversifying the sources of energy imports, restructuring the domestic petroleum industry, and acquiring dedicated oil supplies abroad. Trade, foreign aid, and political issues are covered in other papers presented here. The actual course of Japan's imports of OPEC oil are shown in diagram 1.

Japan and the OPEC countries (with the possible exception of Indonesia) have few direct dealings outside of the oil market. They are separated by vast geographical distances, have very different religious, language and cultural

Diagram 1
Japan's Total Oil Imports (Crude and Products)



Source: *Energy in Japan*, Ministry of International Trade & Industry January 1990 (modified).

backgrounds, and have had few non-commercial transactions.⁴ The one issue that draws Japan and OPEC together is the possibility of oil shortages; in the early 1970s and then during the second oil crisis, Japan and the OPEC states intensified their bilateral contacts in several areas, although Japan still has no formal relationship with OPEC as an organization. The current tightening of the oil market and the projected demand for oil in the decade ahead is once more focusing Japanese attention on the OPEC states.

In Japanese writings today there is a strong sense that a third oil crisis could be in the making. Growing demand, a decline in the production of non-OPEC suppliers, and a renewed interest among the OPEC nations for significant profits from their exports has raised concern over the future of the oil market.⁵

The late 1980s has been a period of adjustment that was generally favorable to a relaxed energy environment—oil prices were moderate, and there was a decline of consumer-nation concern over Middle East security along with a constant rise in oil production volumes. Japan's economic growth slowed, energy efficiency improved and new non-oil energy sources were developed. With lower prices, however, the search for alternative energy sources lost urgency and concern over environmental impact slowed new nuclear power development. In the eyes of many analysts, the results could be a world oil situation that resembles the 1970s—growing oil dependency in the developed world, increased vulnerability to oil disruptions and reduced options for energy supply.

Japan's annual energy demand has grown by 5 percent for the past three years, approaching by 1990 what Japanese experts had only a few years ago forecast would be the level in the year 2000.⁶ The Japanese government has been forced to revise its energy demand projections, and preliminary reports indicate that Japan will renew its earlier efforts for energy efficiency and conservation and try to rely on more nuclear power and natural gas imports in the future.⁷

In recent months there has reemerged in Japan a sense that the Japanese must adopt a more cooperative posture toward the Middle East nations. Shigeki Koyama, echoing widely held views, calls for a more independent Japanese Middle East policy, by which he means the assumption by Japan of a role in the Middle East peace process, the extension of more foreign aid to the region, and the development of a closer dialogue on a broad range of issues.⁸ Koyama believes

4. Ronald A. Morse, *Japan and the Middle East in Alliance Politics* (University Press of America, 1986). See also: Ronald A. Morse, "Japan's Search for an Independent Foreign Policy: An American Perspective," *Journal of Northeast Asian Studies* (Vol. 3, No. 2) Summer 1984.

5. For an excellent recent analysis, see Tsutomu Toichi, *Daisanji Sekiyu Shokku wa Okiru ka* (Will there be a third oil shock?) (Nihon Keizai Shimbunsha, March 1990).

6. Toyooki Ikuta, "Japan's Relationship to World Energy Demand and Supply," unpublished paper delivered at the Middle East-Japan Cooperation Conference, Tokyo, March 1990.

7. *Nihon Keizai Shimbun*, May 14, 1990.

8. Shigeki Koyama, "The Task for Japan: The Need for an Independent Middle East Policy," unpublished paper, presented at conference sponsored by the Japanese Institute of Middle Eastern Economics in Cairo, Egypt, March 1990; or see Shigeki Koyama, *Sekiyu to Chuto ga Sekai o Kimeru* (Oil and the Middle East Shape the World) (Tokyo: Jiji Press, 1987).

TABLE 3

Prices for Arabian Light Crude Oil (1971-1989) in dollars per barrel

June 1971	2.3
October 1973	3.0
October 1975	11.5
January 1979	13.3
April 1980	28.0
October 1981	34.0
March 1983	29.0
February 1985	28.0
May 1989	18.0

Source: Compiled by Author.

that Japan can maintain friendly ties with Arab states while still supporting U.S. foreign policy objectives in the region. His views also reflect a broader Japanese sentiment for a more assertive global political presence.

As during earlier oil crises, there has been an increasingly active set of official bilateral visits, discussions about new ways to cooperate, and suggestions concerning new investment opportunities. These talks and meetings, while largely in the preliminary stage, could lead to modest developments on both sides.

What do the Japanese expect to gain from greater cooperation? The answer is further guarantees of stable oil supplies. They expect that oil development opportunities can be exchanged for OPEC-state investments in Japan's refining and marketing operations.⁹ Still, Tokyo has been slow to permit joint ventures in downstream refining and marketing. Japan's petroleum industry remains under the tight control of the Ministry of International Trade and Industry, despite a June 1987 set of directives to deregulate the domestic oil market.

The interests of the consuming countries and the OPEC states are complementary, particularly with regard to Japan. As Hisham Nazir, the Saudi Arabian oil minister, phrased it to Americans, "Our commitment to consumers, especially as large as the United States, issues from self-interest and good commercial sense. Your commitment to producers, especially as large as Saudi Arabia, is your guarantee of long-term access to a fairly priced ocean of oil. This, in essence, is what I mean by 'reciprocal security' in the world of energy."¹⁰

In January 1990 Nazir visited Tokyo to discuss Saudi Arabia's interest in entering the Japanese oil industry's downstream refining and oil product distribution sectors. OPEC's "downstream club" currently includes Venezuela, Saudi Arabia, Kuwait, and Libya. Kuwait had already purchased gas stations in Western Europe. Saudi Arabia has also invested in a Texaco facility in the United

9. *Japan Petroleum and Energy Trends*, vol. 24, no. 25 (December 8, 1989).

10. *Washington Post*, April 22, 1990, p. H20.

States.¹¹ Japan and Kuwait have held discussions about a joint venture in Thailand.¹²

In January 1990 OPEC Secretary General Subroto of Indonesia was in Tokyo to seek \$60 billion in funds to increase OPEC production capacity. In May 1990 the Japanese sent a mission for technical cooperation to the Middle East. Political circles in Tokyo are also discussing the possibility of having the prime minister visit the region, something that has not taken place for a decade.

Conclusion

Japan-OPEC relations have thus followed a predictable course in recent years, not unlike the ties of other oil-consuming nations with OPEC. Because of the particular character of Japan's historical and other ties with the Middle East, however, the relationship has had an exceptionally straightforward character. Indeed, Japan-OPEC relations have been very market responsive, not unlike Japan's economic relations with other raw-material exporting countries.

The prospects for future Japan-OPEC cooperation are good because both sides benefit from the relationship. Japan has what OPEC nations need—financial resources, technology and increasing global political clout. OPEC also has the huge reserves of petroleum that Japan will continue to require well into the next century.

11. "OPEC Nations Eye Japan Refining Sector," *Daily Yomiuri*, February 4, 1990.

12. "Kuwait Wants Japan to Join Refinery Project," *Daily Yomiuri*, February 2, 1990.

TRENDS IN JAPANESE TRADE WITH THE MIDDLE EAST

Douglas R. Ostrom

In an era when the world wonders how Japanese investors will choose to invest their billions of dollars of assets in overseas markets, Middle Eastern leaders could be forgiven a moment of nostalgia. A decade ago the same question was being asked about investors from their region. Today, Japanese firms sometimes have to contend with restrictions or reporting requirements for foreign investment that were originally intended for the expected earlier wave of Middle Eastern investment, which turned out to be smaller than many in the United States and elsewhere had expected. Whether the concern over Japanese investment eventually becomes longer lasting will depend in part on trade relationships between Japan and the Middle East. As in the past, Japan's oil imports from the Middle East will also play a critical role in shaping bilateral trade between the United States and Japan.

The Importance of the Middle East To Japan's Economy

Japan's postwar economy has a well-deserved reputation as a juggernaut, overcoming a series of obstacles to emerge among the world's strongest by 1990. Japan entered the decade as the richest country in the world on a per capita basis measured at current exchange rates. Americans often compare Japan's economy with that of the United States and increasingly find their own economy lacking.

Ten years ago, few Americans—or Japanese—would have viewed the Japanese economy so favorably. At the time, Japan was caught in the grip of the second oil crisis, a consequence of the upward spiral of oil prices in 1979 that was partly a result of events in the Middle East. The situation was a reminder of the first oil crisis of 1973–74 that also had its origins in that region and which, by most accounts, dealt a severe blow to the Japanese economy. The two oil crises

underlined the continuing Japanese vulnerability; unlike the United States or even most European countries, Japan's economy remains extraordinarily susceptible to serious disruptions in the supply or increase in the price of raw materials. This susceptibility is obvious given the structure of the Japanese economy. Japan uses petroleum products for a high percentage of its energy needs. In fiscal year 1988, 57.3 percent of Japan's energy—as measured by crude oil equivalent energy—came from crude oil, far greater than the 18.1 percent from coal. In 1988, 99.6 percent of Japan's crude oil was imported. While Japan has attempted to diversify its sources of crude oil since the two oil shocks, 68 percent still came from the Middle East in 1988, according to Japan's Ministry of International Trade and Industry (MITI).¹ For this reason, as of 1988 about 40 percent of Japan's total energy needs came from the Middle East. This figure actually understates dependence since Japan also imports increasing amounts of refined petroleum products from the Middle East that are not included in the above totals. These statistics suggest that a disruption of Middle East oil supplies would be felt quickly in the Japanese economy.

Table 1 shows how Japan's energy dependence has changed in recent years. Oil is less important as a source of energy than it was prior to either of the two oil crises and the Middle East's share of that oil has also declined. However, both

TABLE 1
Japan's Changing Dependence Patterns

Year	Percentage Dependence on Oil as an Energy Source (FY)*	Percentage Dependence on Middle East in Crude Oil Supply, as a Share of Total Crude Oil Supply (CY)*
1970	70.8	86.6
1975	73.3	78.2
1980	65.8	73.3
1985	55.2	69.8
1986	55.2	68.5
1987	56.9	67.5
1988	57.3	67.6

*CY = Calendar Year, FY = Fiscal Year (begins April 1)

Sources: Statistics Bureau, Management and Coordination Agency, *Statistical Handbook of Japan, 1988* (Tokyo: Management and Coordination Agency), p. 42; Japan Economic Institute, *JEI Report*, no. 40A, October 20, 1989; and Ministry of International Trade and Industry, *Tsusho Hakusho* (Trade White Paper), various years.

these figures changed little in the last half of the 1980s. In fact, Japan's dependence on oil as an energy source has actually increased in the two most

1. Compiled from figures in Ministry of International Trade and Industry, *Tsusho Hakusho* (Trade White Paper), p. 351 and Japan Economic Institute, *JEI Report*, no. 40A, October 20, 1989, p. 4.

recent years. This is a result of rapid economic growth, unfavorable weather that reduced hydroelectric power, and problems with nuclear power plants. In addition, Japan's overall energy use has climbed steeply in recent years. While the increase in overall energy use trailed gross national product (GNP) growth rates in fiscal years 1985 and 1986, in both fiscal 1987 and fiscal 1988 energy growth was higher. In fiscal 1988, for example, GNP rose at a real rate of 5.3 percent, but energy usage in kilocalories of crude oil equivalent increased 5.7 percent.

Japan and the Middle East became less important to each other after the early 1980s. As table 2 shows, the Middle East played a smaller role than in the 1970s

TABLE 2

The Changing Role of the Middle East in Japanese Trade
(Exports to and Imports from the Middle East as a Percentage of Japan's Total)

	Japanese Exports	Japanese Imports
1970	3.3	12.4
1971	3.4	15.3
1972	4.1	14.9
1973	4.8	12.9
1974	6.6	25.6
1975	10.9	28.5
1976	10.8	28.9
1977	11.0	29.0
1978	11.0	26.2
1979	10.4	26.5
1980	11.1	31.7
1981	11.7	29.8
1982	12.2	28.6
1983	11.7	26.7
1984	8.4	24.2
1985	6.9	23.1
1986	4.7	14.6
1987	4.0	13.5
1988	3.6	10.5
1989	3.1	10.9

Source: Bank of Japan, *Economic Statistics Annual*, various issues; Japan Economic Institute.

as a source of Japanese imports and as a destination for Japanese exports.² Changes in the import share appear to have led to a corresponding change in

2. Data in table 2 and other data using Ministry of Finance data include the following countries in the category of Middle East and North Africa, which is often labelled simply Middle East in Japanese sources: Iran, Iraq, Bahrain, People's Democratic Republic of Yemen, Saudi Arabia, Kuwait, Qatar, Oman, Yemen Arab Republic, Israel, Jordan, Syria, Lebanon, the United Arab Emirates, Gaza, Cyprus, Libya, Egypt, Sudan, Ethiopia, Djibouti, and Somalia.

export share after a year or so. These trends are a result of the stable or falling oil prices in the 1980s and successful conservation efforts in Japan which were partly the result of earlier price increases. Data for 1989 show that the upturn in oil prices resulted in a reversal of the importance of the Middle East as a source of imports, which had been in unbroken slide since 1981. If Japan repeats its earlier

TABLE 3
Japan's Share of Middle East Trade
(Japan and Others as a Percent of Total Middle East Exports and Imports)

Exports		
	1980	1988
Japan	18.9	17.8
United States	10.1	12.0
Italy	5.7	4.5
West Germany	4.0	3.9
Singapore	3.2	3.7
Netherlands	5.4	3.6
France	8.9	3.5
United Kingdom	3.8	3.2
Brazil	3.2	3.0
Others	36.8	44.8
Total	100.0	100.0
Imports		
	1980	1988
Japan	13.1	9.0
United States	11.2	11.4
West Germany	9.4	9.6
United Kingdom	7.3	9.1
Italy	6.0	5.4
France	5.6	4.3
Belgium and Luxembourg	2.3	3.3
Switzerland	2.0	3.1
Netherlands	2.6	2.5
Others	40.5	42.3
Total	100.0	100.0

Note: Listed in descending order of 1988 trade. Does not include those countries that were not among the leading traders in both years.

Sources: Japan Ministry of International Trade and Industry, *Tsusho Hakusho*, 1990, p. 354; idem., *Tsusho Hakusho*, 1983, p. 360.

experience, exports to the Middle East may become somewhat more important to Japan in the early 1990s if oil prices stabilize or continue to increase.

Oil-price developments obviously affect all oil importers. For this reason, Japan has largely retained its importance vis-à-vis other industrialized countries as a trading partner of the Middle East. As table 3 shows, Middle Eastern imports from Japan declined relative to imports from other industrial countries such as the United States between 1980 and 1988, the latest year for which data is available. From the perspective of the Middle Eastern countries, Japan is more important as a buyer of Middle East exports than as a supplier; in 1988, the most recent year for which data are available, it took almost 18 percent of exports, but supplied only 9 percent of imports.

According to data compiled by MITI, Japan's exports to the Middle East declined 3.5 percent in 1988 compared to 1987. Imports increased only 4.7 percent over the same period. As a result, Japan's share of both imports and exports shrank, while that for the United States increased. Japan moved from being the largest exporter to being the fourth largest, just behind Great Britain.³

Japan's relatively smaller role as an exporter rather than as an importer from the Middle East has resulted in a chronic trade deficit with the region. See table 4.⁴ When oil prices have risen rapidly, as they did in 1973-75 and again in 1979-80, the deficit with the Middle East widened enough that Japan's worldwide trade balance swung to deficit as well. This situation is shown in table 4 in the last column, where the bilateral deficit in some years has equalled more than 100 percent of Japan's surplus with the rest of the world.

The Composition of Japan's Middle East Trade

Tables 5(a) and 5(b) give the composition of trade between the Japan and the Middle East. Crude oil remains the overwhelmingly important product that Japan buys from the Middle East, but the percentage has been declining slowly. Liquefied gas has grown steadily, but while refined petroleum products have also grown in percentage terms, their growth seems comparatively slow considering the emphasis this sector has gotten in the Middle East.

As shown in table 5(b) Japan's exports to the Middle East show a striking pattern. In the early 1970s light manufactured goods such as textiles were most important. Between 1975 and 1980, metals—especially steel—took over. Presumably this represented the feverish building activity as the Middle East countries,

3. MITI includes the following countries in the Middle East, a list which differs slightly from that used by the Ministry of Finance and was the basis for table 2: Iran, Iraq, Bahrain, the People's Democratic Republic of Yemen, Saudi Arabia, Kuwait, Qatar, Oman, Yemen, Israel, Jordan, Syria, Lebanon, the United Arab Emirates, Gaza, and Turkey.

4. Because the data in table 4 is on a customs-clearance basis, and because services transactions (such as international construction contracts) are not included, Japan's imbalance with the region is probably smaller than on a balance-of-payments basis. However, Japanese current-account statistics vis-à-vis the Middle East are unavailable.

TABLE 4
Japan's Trade Balance with the Middle East (millions of dollars)

	Exports	Imports	Trade Balance	Worldwide Balance	Bilateral Deficit as Percent of Surplus with Rest of World
1970	\$ 634	\$ 2,337	(\$1,703)*	\$ 437	79.6
1971	824	3,013	(2,189)	4,307	33.7
1972	1,174	3,491	(2,317)	5,120	31.2
1973	1,774	4,941	(3,167)	(1,384)	177.6
1974	3,680	15,920	(12,240)	(6,574)	216.0
1975	6,075	16,477	(10,402)	(2,110)	125.4
1976	7,276	18,745	(11,469)	2,426	82.5
1977	8,884	20,505	(11,621)	9,686	54.5
1978	10,745	20,777	(10,032)	18,200	35.5
1979	10,734	29,377	(18,643)	(7,640)	169.4
1980	14,358	44,500	(30,142)	(10,721)	155.2
1981	17,732	42,670	(24,938)	8,740	74.0
1982	16,946	37,764	(20,818)	6,900	75.1
1983	17,160	33,796	(16,636)	20,534	44.8
1984	14,206	33,066	(18,860)	33,611	35.9
1985	12,171	29,937	(17,766)	46,099	27.8
1986	9,765	18,427	(8,662)	82,743	9.5
1987	9,177	20,197	(11,020)	79,706	12.1
1988	9,438	19,602	(10,164)	77,563	11.6
1989	8,558	23,057	(14,499)	64,434	18.4

Source: Bank of Japan, *Economic Statistics Annual*, various issues.

*Parentheses indicate negative values.

flush with cash from the run-up in oil prices, rushed to develop their infrastructure. Since 1980, machinery, electric equipment, and transportation equipment have been most important, reflecting Japan's international comparative advantage in those sectors. Japanese companies' strong position in the international automobile industry is reflected in the growing share of transportation equipment in Japanese exports.

Trade with Individual Countries in the Middle East

While imports of crude oil have declined relative to other products in recent years, they remain the determining factor in Japan's country-by-country trade with the Middle East. As shown in table 6, the most striking long-term trend is with Iran, which was the largest exporter from the Middle East to Japan in 1970. At that time, Iran supplied almost 50 percent of Middle East exports to Japan, but by 1988 it accounted for only 6 percent (before recovering slightly to just under 8

TABLE 5(A)
Japan's Changing Commodity Composition of Trade with the Middle East
Japan's Percentage Imports

	Crude Oil	Liquefied Gas	Petroleum Products	Other	Total
1970	81.8	0.0	13.6	4.6	100.0
1975	92.0	0.0	6.5	1.5	100.0
1980	86.7	7.2	5.2	0.9	100.0
1985	82.6	9.5	5.7	2.2	100.0
1986	73.9	12.1	8.6	5.4	100.0
1987	69.3	10.1	13.3	7.3	100.0
1988	64.2	10.2	15.0	10.6	100.0

Source: Ministry of International Trade and Industry, *Tsusho Hakusho*, various issues.

TABLE 5(B)
Japan's Changing Commodity Composition of Trade with the Middle East
Japan's Percentage Exports

	Light Manufactures	Metal Products	Machinery	Electrical Equipment	Transp. Equip.	Other	Total
1970	37.7	21.5	8.7	15.9	11.1	5.1	100.0
1975	18.7	36.5	13.7	9.9	17.4	3.8	100.0
1980	19.0	20.8	12.9	19.2	21.6	6.5	100.0
1985	18.1	15.7	18.1	19.3	22.5	6.3	100.0
1986	18.4	13.9	20.8	21.9	17.9	7.1	100.0
1987	18.5	9.2	18.9	22.7	22.7	8.0	100.0
1988	17.5	11.1	17.1	20.1	22.6	11.6	100.0

Source: Ministry of International Trade and Industry, *Tsusho Hakusho*, various issues.

percent in 1989). By contrast, the share of imports from Saudi Arabia has increased steadily. In 1970, Saudi Arabia accounted for less than a fifth of exports from the Middle East to Japan; in 1980 this figure had peaked at 44 percent, before declining to around a third of all Middle East exports in 1987-89. The United Arab Emirates (UAE) has also become more important in recent years. The UAE passed Kuwait as a supplier to Japan in 1976, and Iran in 1980, to emerge second only to Saudi Arabia. In shipments of crude oil to Japan, the UAE is the leader, supplying 20 percent of Japan's total oil import in 1989.⁵

Japan's exports to the Middle East have shown a similar pattern. Iran exhibits a virtually continuous decline in importance; Saudi Arabia gained until

5. Japan Economic Institute, *JEI Report*, no. 18B, May 4, 1990, p. 5.

TABLE 6
Percentage of Japan's Trade with Middle East

	Saudi Arabia		Iran		United Arab Emirates		Kuwait		Israel	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1970	18.6	13.2	42.6	28.2	0.0	0.0	13.2	14.8	1.2	3.2
1975	37.2	20.6	30.2	30.5	15.0	6.9	12.2	6.0	0.5	1.2
1980	43.9	33.8	9.2	10.7	18.4	9.4	7.8	8.9	0.5	0.8
1985	34.2	32.0	8.4	11.1	29.8	9.6	3.9	12.6	0.7	1.4
1986	28.2	28.2	7.5	11.7	32.3	10.5	6.3	12.5	1.8	2.8
1987	36.2	35.3	7.7	11.4	26.8	12.2	8.9	9.3	2.4	3.8
1988	32.4	33.3	5.9	8.6	27.2	13.6	8.1	7.7	3.5	4.5
1989	30.6	32.3	7.8	10.8	26.2	15.1	10.1	7.8	3.3	3.7

Source: Japan Tariff Association, *The Summary Report on Trade of Japan*, various December issues.

1980, when its share levelled off. The UAE is an exception to the pattern of export shares roughly equalling import shares; in 1989 the UAE accounted for a mere 10 percent of Japan's exports to the Middle East despite its important role in Japanese imports.

Israel is much less important to Japan on either side of the trade balance. Japanese firms are widely believed to comply with the Arab boycott against Israel. According to Israeli data, a far smaller share of Israeli imports is sourced from Japan than from the United States or major European countries despite the approximate parity among these countries as suppliers to the rest of the Middle East. However, Israeli exports to Japan in 1989 were higher than to any European country, although only a fraction of those to the United States. Not surprisingly, therefore, Japan had a large negative imbalance in its trade with Israel.⁶ Although it is difficult to know what trade would be otherwise, Israel accounts for a very small but growing share of Japan's trade with the Middle East. Compared with 1985, both exports and imports in 1989 more than doubled their share of total Japan-Middle Eastern trade to 3.3 percent of Japanese imports from the region and 3.7 percent of Japanese exports to the region. Israel's share in worldwide Japanese exports and imports have shown smaller increases over the same period.

Factors in Japan-Middle East Trade

As noted earlier, Japan's demand for imported petroleum is particularly large, given its meager resource endowments and industrial structure. In assessing the effects on the trade balance between Japan and the Middle East, however,

6. Israel Central Bureau of Statistics, *Quarterly Bulletin of Statistics*, February 1990.

additional factors need to be considered. The price of oil has varied tremendously in dollar terms and even more when allowance is made for inflation. Since Japan's demand, while large, is fairly fixed over the short term, run-ups in dollar-denominated oil prices translate almost directly into higher import bills for Japan; this clearly happened in 1989 when oil prices rose significantly over year-earlier levels.

The other factors are economic growth and conservation. Despite continued economic growth in Japan, its appetite for imported oil declined during the 1980s. For example, Japan imported a total of 254 million kiloliters of oil in 1980, a figure that declined every year until 1987, when it was only 185 million kiloliters. This is a remarkable statistic given that inflation-adjusted Japanese GNP was roughly 30 percent larger in 1987 than in 1980. While dependence on Middle East crude oil has remained roughly constant as an energy source, conservation efforts in Japan have held down the growth of overall energy demand and, with it, the demand for crude oil. This trend suggests that oil prices have had differing effects over the short and long term. Short-term increases led to increased Japanese imports in dollar terms (with a lag of one-to-two years), but higher prices led to conservation efforts, which yielded a permanent decrease in energy and oil demand relative to GNP.

The 1980-87 period was one of relatively slow growth for Japan. In 1988 and 1989, though, the economic growth rate picked up, reaching 5.7 percent in 1988 and 4.9 percent in 1989. With oil prices comparatively low, Japan's oil imports increased 4 percent in 1988 and 6.6 percent in 1989, according to Ministry of Finance data. Should Japan's growth rate continue to exceed the 1980-87 average (and most experts expect that it will), oil consumption in Japan will probably stop declining. Should oil prices remain relatively low, increased consumption is more likely.

Effects of Japan's Mideast Oil Trade

If the past should become prologue, one benefits from looking at Japan's experience in 1973-74 and 1979-80. Both periods were characterized by rapid upward movements in the price of petroleum. The average price of an imported barrel of oil rose from \$3.29 in 1973 to \$10.79 in 1974 and from \$18.92 in 1979 to \$32.97 in 1980.⁷ Price rises were partially reflected in 1973 and 1979 and spilled over through 1975 and 1981, leaving the remaining years between 1975 and 1978 with relatively small price increases.

The oil price increases had dramatic, and generally similar, effects both times on the Japanese economy. The large rise in the import bill increased the supply of yen on world currency markets as Japanese oil importers had to obtain a larger

7. Calculated from customs-clearance trade statistics compiled by Japan's Ministry of Finance.

amount of dollars to pay the oil-exporting countries. The oil-exporting countries in the Middle East and elsewhere could not stuff the dollars they earned in mattresses. Instead, they increased their imports and raised their levels of overseas investment. Japan was relatively unaffected by either development; it did not have what the oil exporters wanted to import and had few favorable investment opportunities, in part because at the time its capital markets were relatively closed. Instead, the oil exporters' dollars flowed to the United States and European suppliers for purchases related to construction projects, military buildups, and other activities. They also invested in Third World countries, using U.S. banks as intermediaries. In short, there was little increase in demand for yen on the part of oil exporters to buy Japanese goods. By contrast, demand for the dollar and European currencies rose along with Middle East demand for European goods, partially offsetting the increased supply of these currencies made available by European oil importers.⁸

Given these trade patterns, the rest of the outcome in currency markets was inevitable. The rising supply of yen and the stagnant demand for them implied a drop in the value of the yen vis-à-vis the dollar and other currencies. The yen dropped from an average of ¥272=\$1.00 in 1973 to ¥297=\$1.00 in 1975, and from its peak of ¥253 to the dollar in 1973; it fell to as low as ¥307=\$1.00 in 1975. This experience was repeated during the second oil crisis. From an average of ¥210=\$1.00 in 1978, the Japanese currency fell to ¥227=\$1.00 in 1980. In 1978 the yen was as strong as ¥176=\$1.00; in 1980 it was as weak as 264 to the dollar.

In addition, Japan's current account, a broad measure of the trade imbalance, shifted strongly during both oil crises. From a then-sizable \$6.7 billion surplus in 1972, the current-account balance moved to a deficit the following year. In both the first and the second oil crisis, the surplus reappeared after a one-to-two year adjustment. This adjustment was multifaceted. The yen's depreciation made Japanese goods more price-competitive around the globe. In the Middle East, as we have seen, Japanese exports picked up a year or two after the oil-price rise, reflecting this delayed reaction to the exchange rate movement as well as the usual lag in placing new orders. The effect, however, was hardly limited to the Middle East. Japanese products became more competitive in the United States as well, either because Japan's companies could afford to lower prices or because they built in more quality. Because Japanese firms tend to specialize in goods having price-sensitive demand (such as automobiles), the result was a surge of exports. In the case of cars, Japanese firms were doubly lucky because they produced mainly fuel-efficient vehicles, demand for which increased in the United States for precisely the same reason that Japanese companies were able to offer them at attractive prices: higher oil prices.

8. For a more detailed explanation, see Nancy Peregrin Marion and Lars E.O. Svensson, "The Terms of Trade between Oil Importers," *Journal of International Economics*, vol. 20, nos. 1/2 (February 1986), pp. 99-113.

On the import side, the higher oil bill had to be paid, but the weak yen made other potential imports—consisting largely of manufactured goods from the industrial countries—less attractive because of higher prices in yen terms. The net result was much higher exports to pay for the oil and lower manufactured goods imports. Once exports recovered, the trade surplus reappeared and the yen appreciated, reflecting a reassertion of Japan's long-run trends—higher rates of productivity increase and lower inflation compared to other industrial countries.

Implications for U.S.-Japan Relations

Japan's oil trade was only one factor affecting the value of the yen and Japan's current account. However, as seen earlier, in some years this factor loomed extremely large. For that reason, it is surprising how little attention the oil factor has gotten from U.S. policymakers examining the Japanese economy. In many ways, the Middle East connection is the invisible force affecting trade across the Pacific.

U.S. policymakers often have in mind Japan's relative lack of manufactured goods imports when they draw up complaints about the Japanese economy. For example, in the Structural Impediments Initiative, a series of talks completed in the summer of 1990, Washington argued with partial success that Japan should dismantle its Large Scale Retail Store Law, which has made it difficult for retailers to open large stores. In the American view, the bigger stores would be more likely to sell imported (U.S.) goods. However, the lack of manufactured goods in Japanese retail outlets is partly a response to the adjustments engendered by high oil prices that were described above. Both oil shocks reversed a trend toward higher levels of Japanese manufactured imports as a percentage of total imports.⁹ In the late 1980s the trend toward more manufactured good imports had resumed, and in 1989 manufactured goods accounted for more than 50 percent of all imports.¹⁰

More generally, U.S. policymakers point to the bilateral imbalance in trade as evidence that Japan should open its market to U.S. goods. In mid-1990, this imbalance was described by words such as "sticky" or "stubborn," because it refused to go much below \$50 billion per year. However, the bilateral imbalance is closely related to oil prices. As noted above, higher oil prices brought in their wake yen depreciation and, eventually, higher exports to pay for the oil. In addition, non-oil imports may have fallen relative to what they otherwise would have been. Much of the export growth was to countries other than those in the

9. For details, see *JEI Report*, no. 14A, April 8, 1988.

10. Many experts, however, believe that Japanese barriers have kept manufactured imports low independently of rising oil prices. See, for example, Edward J. Lincoln, *Japan's Unequal Trade*, (Washington: Brookings Institution, 1990), especially pp. 18-25. To the extent this is true, the restrictions would make oil figures more prominent in exchange rate determination than in a regime where it accounts for a smaller percentage of total trade.

Middle East, therefore, one result of higher oil prices in 1973-74 and in 1979-80 was a higher level of exports to—and a lower level of imports from—the United States. Even in the absence of any change in either country's overall trade imbalance, Japan's bilateral surplus could have been expected to rise, which it did. In other words, the Middle East has been a factor driving a wedge between movements in Japan's overall current account surplus and the bilateral surplus with the United States.

The Future

Japan has an enviable recent record of energy conservation, and one result has been lower oil imports. However, conservation has not always been so successful. The record volume of oil imports on a yearly basis to date was set in 1973 at 290 million kiloliters. The second highest level was 281 million kiloliters in 1979. Both records were set one year before a rapid run-up in oil prices. By contrast, Japan's 1989 oil imports came to a mere 205 million kiloliters, but they were up sharply from the year before.

Do these figures mean that Japan's energy appetite could eventually yield a third oil crisis? Oil price inflation is a result of both supply (which was very much a factor in the previous crises) and demand (of which Japan is only one part). Past history suggests that rising energy demand in Japan and elsewhere will make an increase in prices more likely, and that would trigger another round of adjustments in the Japanese economy that could lead to new trade frictions with the United States. For this reason, active Japanese policy to keep supply and demand factors for Middle Eastern oil from going out of control may stem primarily from a desire to guarantee a supply of oil, but also has the effect of helping to maintain good relations with the United States. Ironically, Japanese Middle East political initiatives that displease the United States may, if successful, result in better relations with this country.

Conclusion

Japan's trade with the Middle East remains dominated by oil. While it would be premature to expect another crisis on the order of the two oil shocks, Japan's rising appetite for oil, which follows years of stagnant demand, increases the probability of such an outcome. In the 17 years since the first oil shock, both Japan and the Middle East countries have changed, the major oil suppliers to Japan have changed, and Japanese exports play a different role than previously. However, the elements for another disruption and price spiral are still present. Avoiding such a development will depend on policies in Tokyo, Washington, and in Middle East capitals.

BALANCING ACT: JAPANESE FOREIGN AID POLICY IN THE MIDDLE EAST

Robert M. Orr, Jr.

Outwardly, Japan's foreign aid program has undergone phenomenal change since the immediate years before the first oil crisis. In 1972 Japan extended less than \$500 million globally in bilateral concessional aid, consisting largely of yen-denominated loans. Moreover, Tokyo was still a recipient of foreign assistance. Not until 1990 did Japan finally complete payment on its outstanding debt to the World Bank.

Despite the fact that almost 98 percent of Japan's assistance was disbursed in Asia only a year before the first oil shock, the Middle East was the region which triggered the greatest change in Tokyo's orientation toward foreign aid. Since the inception of Japan's aid program in the late 1950s and early 1960s, the explicit promotion of exports was unabashedly supported through what the government referred to as economic cooperation, but the oil crisis dramatically reminded policymakers of their vulnerability to imported natural resources and added a new rationale for extending foreign assistance to nations which held those vital natural resources. This represented a fundamental shift in the Japanese aid program because it helped the Ministry of Foreign Affairs (MOFA) make the case for increasing aid budgets. In addition, the use of aid as a diplomatic tool vis-à-vis the Middle East helped enlarge Japan's aid application beyond Asia.¹ By 1977, Tokyo embarked on the road to becoming a first class aid power with the first of four medium-term aid-doubling plans. Other arguments were later employed to propel Japanese aid spending, most prominent among them being direct pressure from the United States, but it was resource diplomacy which provided the initial departure from the strong aid mercantilism which previously characterized

1. For a concurring view see Dennis T. Yasutomo, "Why Aid? Japan as an 'Aid Great Power,'" *Pacific Affairs*, vol. 62, no. 4 (Winter 1989-90), p. 493.

Japanese aid. These are the most important influences that nations in the Middle East have had on reorienting the consciousness of Japanese policymakers toward developing nations.²

The Motivation of Japanese Foreign Aid

In order to understand what has shaped the content and direction of Japanese foreign aid to the Middle East, this paper proposes three fundamental motivations in Japan's aid program. First, as suggested above, resource diplomacy played an important role in initiating a major aid focus on the Middle East, and it continues to do so. Second, strategic goals lie behind some of Japan's aid to the Middle East. The dividing line between what constitutes "resource diplomacy aid" and "strategic aid" is often an exceedingly thin one. For purposes of this paper, "strategic" is defined as involving not only Japanese energy interests, but also broader Western concerns with which Japan complies (often as a reaction to specific pressure from the United States). Third, and to a much lesser extent, humanitarian concerns shape some aid decisions.

Besides these three primary factors, it is important to recognize certain internal problems in the Japanese aid system which affect decisions. While aid levels steadily progressed in the 1970s, the policymaking and implementation system has not changed appreciably since 1974. As a consequence, the aid system is frequently rife with bureaucratic in-fighting, impairing consistent policy in the region. Thus, comprehending this system is important in coming to terms with how aid policy emanates from Tokyo. This difficulty in obtaining consensus has meant that Japanese aid policy to the Middle East often appears reactive to pressures from potential recipients and other donors such as the United States.³

Government institutions can also interpret pressure to suit their own bureaucratic interests. Therefore Japan's initial foray into aid diplomacy in the Middle East occurred only after the nation was threatened by an oil cutoff. Bureaucratic interests also explain the effectiveness of U.S. pressure on Japan in the 1980s to extend and sustain aid to countries deemed strategically important to Western interests. Frequently, the Ministry of Foreign Affairs has shared this strategic perspective and used U.S. pressure as a tool to leverage more aid funds from the finance ministry.⁴

Significantly, humanitarian concerns are rarely articulated as a priority for providing aid to the region, with the notable exception of assistance to Palestinian

2. For a discussion of resource diplomacy and Japanese aid, see Dennis T. Yasutomo, *The Manner of Giving: Strategic Aid and Japanese Foreign Policy* (Lexington, MA: Lexington Books, 1986). Also Robert M. Orr, Jr., *The Emergence of Japan's Foreign Aid Power* (New York: Columbia University Press, 1990), chapter 3.

3. On this point, see Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics*, vol. XL, no. 4 (July 1988), p. 519.

4. Orr, *The Emergence of Japan's Foreign Aid Power*, chapter 5.

refugees. Thus, the three themes outlined above are finely interwoven into the tapestry of the Japanese foreign aid story in the Middle East.

Understanding the Aid System

The heart of aid policymaking has been and remains the so-called "four ministry decision making system" (*yon shocho kyogi taisei*).⁵ For concessional yen loans only, the Ministry of Finance (MOF), Ministry of Foreign Affairs, Ministry of International Trade and Industry (MITI) and the Economic Planning Agency (EPA) are responsible for creating a consensus for each and every loan requested by a potential recipient government before that aid can be implemented. In reality, the major players in the process are MOF (because of its budgeting role) and MOFA (as the window for all foreign aid requests). In fiscal year 1989, MOFA had direct administrative responsibility for 47 percent of aid under the general account budget. MOF was budgeted for 39.1 percent (more than 25 percent of which was earmarked for multilateral assistance) while 5.2 percent was set to be handled by EPA, and only 3.4 percent by MITI.⁶ In addition, some 12 other ministries have at least some role to play in the aid process. The Ministry of Foreign Affairs has more direct authority over grant aid, usually only consulting with the Ministry of Finance (which, nevertheless, can have enormous influence at the initial budgeting stage). In 1988, however, more than 50 percent of Japanese official development assistance (ODA) was in the form of yen-denominated loans.

Japan has frequently been criticized for having the weakest of all concessional terms in the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). This is undoubtedly true as most donors are moving toward larger grant portfolios. In part the debate over loans versus grants is related to the aid budgeting process. The general account budget is not the sole source of funding for Japanese ODA. For example, in the 1989 budget 37.6 percent of aid funds were from the Fiscal Investment and Loan Program (FILP, or *Zaisei Toyushi* in Japanese).⁷ The funds in this program come from, among other sources, money deposited by Japanese citizens in postal savings accounts. One reason why Japan continues to extend such a high percentage of loans is because aid remains so heavily dependent on FILP funds, which require repayment with interest for the depositors.⁸ Since MOF (like all

5. For a detailed discussion of the role of the ministries in aid policymaking see Alan Rix, *Japan's Economic Aid* (New York: St. Martin's Press, 1980), chapters 3, 4, and 5 as well as Orr, *The Emergence of Japan's Foreign Aid Power*, chapter 2.

6. Ministry of Foreign Affairs, Economic Cooperation Bureau, *Wagakuni no Seifu Kaihatsu Enjo*, vol.1 (Tokyo: Association for Promotion of International Cooperation, 1989), p. 290 (hereafter cited as *Wagakuni*). Figures include grant and technical assistance as well as yen loans.

7. *Ibid.* For a discussion on how the Fiscal Investment and Loan Program operates see John Creighton Campbell, *Contemporary Japanese Budget Politics* (Berkeley: University of California Press, 1977), pp. 209-211.

8. Jun Nishikawa, "Japan's Economic Cooperation: New Visions Wanted," *Japan Quarterly*, (October-December 1989), p. 394.

finance ministries) is preoccupied with fiscal issues, it is reluctant to increase general account outlays for aid. Even the Ministry of Foreign Affairs has become more nervous about expanding the use of the taxpayer-funded general account because of concern over a potential drop in public support for the foreign aid program.⁹

Besides the myriad of ministries involved, there are two separate quasi-governmental agencies—The Japan International Cooperation Agency (JICA) and the Overseas Economic Cooperation Fund (OECF). JICA is responsible for grant and technical assistance. While the agency comes under the direct control of the Ministry of Foreign Affairs, 11 of its 17 divisions are headed by officers seconded from six other ministries. Almost all concessional yen loans are administered by the OECF, which was placed under EPA's jurisdiction at its 1961 creation mainly as a neutral ground between the major ministries. Nonetheless, the OECF is heavily influenced by MOF because so much of its financial resources derive from the FILP. The last two presidents of the OECF have been retired officials from the MOF.

More recently another agency—the Export Import (Exim) Bank has also entered the jurisdictional squabble. Officials in the Exim Bank, which was created largely to stimulate Japan's exports, have worried sometimes that they are losing their *raison d'être*. As Japan's aid volumes mushroomed, bureaucrats in MOF (which has sole control of the bank), as well as in the bank itself, advocated that the Exim Bank would be an ideal institution to help implement concessional credits, something which only the OECF had done before. The other ministries strongly opposed this move, fearing that it would lead to a dramatic expansion in MOF's influence over foreign aid policy. As described later in this paper, however, Exim and MOF prevailed.

The National Diet's role is considerably weaker in the aid process than in other countries. There exists no equivalent of the Foreign Assistance Act in Japan. The Diet has little influence over how much aid goes to which region (with the exception of actions during the 1973 oil crisis). The director-general of the Economic Cooperation Bureau in MOFA, along with his counterpart in MOF's International Finance Bureau, must often answer questions on aid during interpellation periods before the lower and upper house budget committees of the Diet. In order to avoid causing problems for the ruling Liberal Democratic Party (LDP), there is a conscious effort to steer away from descriptions of the aid program which might raise the ire of the opposition parties. For example, the foreign ministry never employs the term "strategic aid" in testimony before the Diet, a phrase which could be construed as belligerent in Japan. Nevertheless, the two largest opposition parties, demonstrating growing activism and interest in foreign

9. Particularly since the Philippine yen loan kick-back scandal in 1986, Tokyo newspapers have been filled with accusations of wasted funds on Japanese aid projects. A series of articles to this end in *Shukan Post* (The Weekly Post) in 1989 portrayed waste and fraud in foreign aid programs.

aid, have advocated the creation of a single international development cooperation agency (*Kokusai Kaihatsu Kyoryoku-cho*)¹⁰ to streamline aid administration. Without LDP and bureaucratic support, though, such a proposal will not have much future.

Because of the export promotion nature of Japan's early aid program, concerns over Tokyo's commercial designs through aid have remained. This author sees this involvement more as a problem in the aid decision-making system rather than as a premeditated policy of the government. I would attribute the strong presence of the private sector primarily, but not exclusively, to two factors. First, the Japanese aid program relies largely upon the so-called requests (*yosei shugi*) of recipients. In practical terms that has allowed the general trading companies (*sogo shosha*) and construction companies considerable leeway in manipulating requests that are not always consistent with the recipients' needs. Second, the Japanese aid program has been dependent on the private sector because the MOF has never seen fit to raise foreign-aid personnel levels. In 1989, 1,511 individuals worked in the various aid programs throughout the government, a number which roughly equals aid personnel in Great Britain, a nation with an aid budget one-fifth the size of Japan's. Administering over one-half of all aid funds, the OECF had 36 employees stationed abroad to oversee its program in 1989. Administrators are frequently so overworked that receipts from companies supplying material for aid projects are often not even required, since few officials have time to conduct oversight. Under such circumstances it is hardly surprising that the private sector has had a major role. These facts have a direct effect on the nations in the Middle East seeking Japanese assistance.

The Oil Crisis of 1973

The outbreak of the 1973 Arab-Israeli war and the subsequent use of oil as a political weapon against the West by the Organization of Petroleum Exporting Countries (OPEC) brought Japan head-long into its first real international crisis since the end of World War II. Japan's dependence on OPEC oil in the 1960s had crept upwards in tandem with Japan's rise as an economic power. Japan, like the United States, took inexpensive oil for granted until 1973.

The Arab states in OPEC wanted Japan to be more sympathetic to their cause vis-à-vis Israel, a non-oil supplier. Japan's initial reaction was to articulate a policy which tried to please everyone (but which, in reality pleased no one). Japanese policymakers walked a tightrope, balancing the desire to ensure that Japan would not suffer economically from a lack of petroleum by supporting the Arabs and the fear of angering the United States. This dilemma may have been

10. Toshiaki Takatsuka, "Kokkai kara Mita Seifu Kaihatsu Enjo," *Gaiko Jiho* (Revue Diplomatique), no. 1266, March 1990, p. 35.

complicated by a bribery scandal in MITI which seriously disrupted policymaking in its petroleum department.

With MITI partially disabled by the scandal, the foreign ministry became more assertive. A verbal note to the Arab embassies on October 25 amounted to a concrete promise (as opposed to a plan to study) for a dramatic expansion of foreign aid to the region. The major ingredients in this package were being formulated in the bureaucracy even before the politicians began to consider aid as a means of mollifying the OPEC Arab states.

The MOF was won over to this initiative by the obvious gravity of the situation and the existence of cabinet-level support. In December 1973 Prime Minister Kakuei Tanaka dispatched an entourage led by high-ranking LDP member (and later prime minister) Takeo Miki to the Middle East with a major foreign aid package.¹¹ The plan was clearly designed as a palliative toward Japan's Arab critics. The multi-year package included \$3 billion in aid overall, including \$1 billion each to Iran and Iraq.¹²

The magnitude of the Miki mission's aid gift and the manner in which it was handled show that the request basis is not always necessary. I would suggest this demonstrates the extent to which Japan is willing to forego its usual procedures in order to react to a situation regarded as critical to national survival. With no military options and little else but money, the stage was set for foreign aid to take on wider applications.

The Nature and Volume of Japan's Middle East Aid

In the 1970s and 1980s, Japanese aid to the Middle East zoomed upward and then stabilized, marginally increasing and subsiding with the ebbs and flows of oil politics. Bilateral aid destined to the Middle East reached a high of 24.5 percent of Japan's overall bilateral ODA flows in 1977, but bottomed out at roughly 10 percent thereafter. (See table 1.)

According to Japanese government officials, one of the largest problems confronting aid policymakers is that the region is home to nations with high incomes. Justifying concessional aid to many of these countries is difficult even if they are vital to Japanese and Western interests, and this problem translates into interministerial conflict.¹³ The MOFA emphasizes the political and strategic implications of policy in the region, while the MOF is more concerned about a nation's ability to repay loans (which the ministry favors). When a country has what is regarded as a high per capita income level, the MOF supports either private sector loans or non-concessional government loans from the Exim Bank. Therefore, yen-denominated loans accounted for 65 percent of all Japanese aid

11. Miki succeeded Tanaka as prime minister in December 1974.

12. Yasutomo, *The Manner of Giving*, p. 88.

13. Koichiro Matsuura, *Enjo Gaiko no Zaisensen de Kangaeta koto* (On the Front Lines of Aid Diplomacy) (Tokyo: Association for the Promotion of International Cooperation, 1990), p. 209.

TABLE 1
 Percentage Share of Japan's Bilateral Aid
 Disbursed to the Middle East 1972-1988

1972	1973	1975	1977	1979	1981	1983	1985	1987	1988
0.8	1.4	10.6	24.5	10.6	38.4	8.3	7.9	10.0	9.1

extended to the region in 1988, while grants accounted for only 22 percent and technical assistance for 13 percent.

Among all donors in the Middle East, Japan ranks third behind the United States and West Germany. In 1987 the United States extended \$2.6 billion to the region, while Japan provided \$526 million. Almost half of U.S. aid to the region went to Israel in that year (\$1.2 billion), while Egypt received \$1.0 billion.¹⁴ These two countries thus absorbed 87 percent of all U.S. foreign aid to the Middle East. In contrast, Japan provided \$1.7 billion (33 percent) of its regional aid to Egypt in 1988 and does not extend any assistance to Israel. These figures suggest that while Tokyo's aid program in the region is significantly smaller, it is more evenly distributed. In 1987 Japan was the largest individual donor to 29 developing nations, 4 of which were located in the Middle East. Almost half of Bahrain's ODA receipts came from Japan, while the ratio for Iraq was 89 percent, Qatar was 57 percent, and Syria was 51 percent.¹⁵

Rationalizing Aid to the Region

Subject to bureaucratic bickering, three basic justifications are used for aid to the Middle East, as was suggested at the outset of this paper: resource diplomacy, strategic aid or reactions to foreign pressure, and (to a lesser extent) humanitarian aid. The cases of Egypt, Palestinian refugees, Iraq, Iran, and several other Persian Gulf states, illustrate how and to what extent these justifications are applied.

When the Iran-Iraq War erupted in September of 1980, Japan once again faced the prospects of having its vital oil supply cut and was forced into another balancing act. This time, however, both belligerent powers were major oil suppliers. Iraq had become an important recipient of Japanese aid following the 1973 oil shock (when Japan extended mixed credits to Baghdad).¹⁶ From the outset, the MOFA emphasized oil in its arguments in favor of aid to Iraq, while MITI and MOF favored mixed credits. The choice in favor of mixed credits

14. Figures taken from Tomio Uchida, "Japanese Perspectives with Emphasis on Economic Aspects," unpublished paper, March 1990; and *Wagakuni*, vol. 2, p. 263.

15. *Wagakuni*, p. 16.

16. Matsuura, *Enjo Gaiko no Zaizensen de Kangaeta koto*, p. 207. Mixed credits have been defined as "using aid to subsidize exports." See Desmond McNeill, *The Contradictions of Foreign Aid* (London: Croom Helm, 1981), p.31.

caused Iraq to amass considerable debt, especially since much of Baghdad's financial reserves were drained in the war with Iran. In early 1990, the Japanese government made an informal agreement to "fence off" roughly 45 percent of Iraqi oil reserves to service debt on the mixed credit loans.

Differing ministerial positions have caused ripples in Japan's approach to Oman and Iran as well. The Japanese government extended \$200 million in credits to Oman at concessional rates, but the internal bickering over which agency would administer the funds was substantial. As a result, the package for Oman, a key nation under the resource diplomacy rationalization, was held up for months as the embattled bureaucrats attempted to settle the issue. Eventually, Oman became the first country to receive concessional loans from the Exim Bank under Japan's foreign aid system, representing a jurisdictional victory for MOF.

The Ministry of Foreign Affairs as well as MITI has wanted to expand assistance to Iran for some time. For many years Tokyo and Tehran were locked in an imbroglio over how to dispose of the Mitsui-built (and partially OECF yen-loan funded) Bandar Khomeini petrochemical project which the Iraqis had repeatedly bombed.¹⁷ A settlement between Mitsui and the Iranian government was finally reached in November 1989 allowing Mitsui to pull out of the project.

With this issue settled, Iran would seem to be an ideal candidate for more aid under the rubric of resource diplomacy, and the MOFA has tried to make this case; the Iranian domestic economy is in trouble with inflation running at approximately 50 percent.¹⁸ The MOFA has been interested in providing more technical aid and supporting Iranian agriculture, but bureaucratic disagreement also had a role. With an estimated per capita GNP of \$2,800, Iran exceeds the ceiling for concessional yen-denominated loans under Japanese government guidelines. Some officials in the MOFA believe that the income estimate for Iran is artificially high, but the MOF accepts these statistics as a reason to oppose concessional loans.¹⁹

Strategic aid is the second major rationale in Japan's aid program. For Japan—which has been unwilling or unable to exercise political influence in the world until recently—the concept of strategic aid has proven to be very difficult to articulate. As I have observed earlier, opposition parties in the Diet often view strategic aid as simply following U.S. global designs.

In the early 1980s, the Nakasone government tried to break this perception by creating an explicit rationalization which attempted to wed the strategic concept with resource diplomacy. This was brought about in part by what some policy-makers in the MOFA (as well as Nakasone himself) saw as the need to contribute more assistance to nations in the Middle East and its periphery. Thus, the short-lived comprehensive security approach was launched, which defined aid as

17. Constructed by the Iran-Japan Petrochemical Company, the project was located at the Persian Gulf port of Bandar Khomeini, and it was 85 percent completed when the war began.

18. Matsuura, *Enjo Gaiko no Zaizensen de Kangaeta koto*, p. 204.

19. On Iranian income levels, see Matsuura, p. 206.

one of a triad of foreign policy tools that also included defense and diplomacy. This policy was refined to rationalize assistance to countries important to Western strategic interests. The term employed was *funso shuhen koku* (nations which border conflict areas), but it did almost nothing to alleviate fears of the policy's opponents that Japan was simply following a U.S. agenda. The government was again doing a balancing act since much of the strategic aid was, in fact, in response to U.S. pressure, and was employed partially as a means of deflecting criticism of Japanese defense and trade policies.²⁰ Comprehensive security subsequently dropped out of the government's vocabulary. Instead, the MOFA prefers to use *sogo izon* (interdependence) to justify aid to the Middle East.

Countries in the Middle East which have few if any oil reserves but receive aid—such as Turkey, Egypt, Sudan and Lebanon—must be placed in the strategic category.²¹ Some of this aid takes rather bizarre forms, such as the construction of an opera house in Cairo through grant assistance—a project which was roundly criticized in the Japanese press. The MOFA, though, sees Egypt as a key player in the Middle East peace process, and peace reduces the likelihood of threats to Japan's oil supply. Furthermore, the ministry believes that major oil suppliers such as Saudi Arabia "appreciate" Japanese assistance to Cairo, but MOF, in contrast, regards Egypt as a problem; it has been slow to absorb funds, slow to repay loans, and has not met the approval of the International Monetary Fund. In this sense, MOF is also susceptible to foreign pressure, in this case from the multilateral financial institutions and the U.S. Department of the Treasury. The positions of both organizations are used sometimes to counteract the MOFA's use of U.S. State Department pressure as a justification for its positions.

While the Japanese constitution explicitly forbids maintaining any kind of military force, Japan's military budget is, nonetheless, reportedly the third largest in the world. During the Gulf war, despite calls on Japan to play a greater role in protecting the oil lifeline, Tokyo depended on the United States, Britain, and France. Japan did, however, use foreign aid for one project intended to protect open sea lanes—grant assistance to purchase a precise navigation system from a British concern to help guide tankers through the mine fields.²² Japan's strategic aid differs from its resource diplomacy aid because it is driven to a much greater extent by pressure from the United States. Resource diplomacy aid, on the other hand, is driven by pressure from nations possessing natural resources, but the policies generated by both influences appear reactive rather than pro-active.

The third element in Japan's aid to the region is humanitarian concerns. All foreign aid includes a humanitarian angle to some extent and Japan's is no different. The MOFA, in fact, has a tendency to emphasize this angle in

20. This was quite explicitly the case in providing aid to Egypt (following the assassination of President Sadat) and the Sudan. See Orr, *The Emergence of Japan's Foreign Aid Power*, pp. 117-119.

21. Yasutomo, *The Manner of Giving*, p. 122.

22. "Kuwait, Saudi Arabia to Host Navigation Project Funded by Japan to Help Ships Safely Ply Gulf," *Japan Times*, July 16, 1988, p. 3.

parliamentary discussions. One barometer of real interest in humanitarian concerns is the level of foreign aid extended to regional nations with low levels of GNP per capita, indicating a real need for basic human needs assistance. From this perspective, Japan comes out badly. In 1987, of the eight regional nations with per capita GNP levels under \$2,000, Japan was the largest donor to only one (Syria) and ranks third or below in most of the other countries. Even in Syria, almost 94 percent of aid was in the form of yen-denominated concessional loans which would have to be repaid eventually. The United States, in contrast, was the largest donor to three of these low-income countries (Egypt, Jordan and Sudan), and ranked third or higher in three others. Since the United States has moved to a full grant aid program, none of this assistance was expected to be repaid.²³ Therefore, despite the Japanese government's claims of interest in humanitarian assistance, it remains reluctant to support anything which resembles charity in the Middle East.

At least one clear-cut case of humanitarian aid, albeit directly related to Japan's resource diplomacy-driven relations with other Arab states, is its financial support for Palestinian refugees. Japan first offered assistance to Palestinian refugees following the oil shock in 1973. Since Japan does not recognize the Palestinian Liberation Organization (PLO) as representatives of a state, it cannot offer direct bilateral aid, but it supports refugees through UN organizations. The MOFA is adamant that this remain the case, even though several European donors provide direct assistance.²⁴ In fiscal 1989, Japanese contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) amounted to \$17 million, while \$2 million was routed through the United Nations Development Program (UNDP).²⁵ While Israel does not officially object to humanitarian assistance to the Palestinians some MOFA officials claim that Israeli authorities have been uncooperative or disruptive of efforts to aid the refugees.

In April 1990 Japan and the PLO conducted consultations in Tokyo for the first time on political and economic cooperation. Japan confirmed that it would support the establishment of a 200-bed hospital in the Gaza Strip to be built by UNRWA. The PLO also called upon Japan to assist in the creation of a new development bank and vocational program for Palestinians.²⁶

The Future of Japan's Foreign Aid to the Middle East

In terms of volume, Japan's foreign aid has come a long way in a short time. The progress on quality has been slower, which I see as a systemic problem. The future of Japanese ODA in the Middle East will be affected by several factors.

23. Calculated from data in *Wagakuni*, pp. 215-333.

24. "PLO Seeks Direct Aid From Japan," *Japan Times*, April 28, 1990, p. 3.

25. Uchida, "Japanese Perspectives," p. 12.

26. *Japan Times*, April 28, 1990

First, Japan's attempts to diversify its energy sources do not appear to be working as well as hoped. If dependency continues to creep back up, Japan might continue to step up assistance to the region, although Koichiro Matsuura believes that the ratio of the Middle East to Japan's overall bilateral aid program of roughly 10 percent will remain basically unchanged.²⁷

Second, it is possible that the East European revolutions of 1989 and the collapse of communism may have a direct consequence on the extent to which Japan increases or decreases foreign aid to the Middle East. If a rapprochement between the Soviet Union and Japan were to be achieved as result of compromise over the Northern Territories issue, then Siberia's vast natural resources could suddenly open up for Japan, reducing dependence on the Middle East and therefore the need for a larger aid role.

A third factor is the extent to which Japan attempts to become more of a global power broker. Tokyo's initial experiences as a mediator in the Middle East during the Iran-Iraq War appeared clumsy. Unless stronger political leadership asserts itself domestically, Japan will remain a very wary and reluctant political power.

This paper has argued that Japanese aid policy in the region has expanded mainly as a reaction to events and as a result of foreign pressure. Japan's position has been further complicated by having to walk a delicate balance between securing the nation's energy needs and risking the wrath of the United States if Tokyo runs counter to U.S. policy goals in the region. The complex domestic institutional structure makes it difficult to develop a pro-active approach to foreign aid. Only time will tell whether Japan can overcome these obstacles.

27. Matsuura, *Enjo Gaiko no Zaizensen de Kangaeta koto*, p. 211.

JAPAN AND THE ISRAELI-PALESTINIAN CONFLICT

Yasumasa Kuroda

“Why didn't you bang the wall of the water tank? Why? Why? . . .”¹ So ends Ghassan Kanafani's novel *Men in the Sun*. Kanafani's call for his compatriots to effectively articulate their right to self-determination suggests their past inefficaciousness. Similarly, *Asahi Shimbun* (one of the largest newspapers in Japan) took two days before it reported on the passage of the partition plan for Palestine at the United Nations (UN) on November 29th, 1947. The *Asahi's* article consisted of only five lines.²

Today we no longer can deny hearing the Palestinians' cry for their rights, but the world is incapable of hearing the Palestinian voice. The Japanese media reported the dramatic hijacking of jetliners, terrorist activities, and Israel's "retaliatory" attacks on the Palestinians, but it was not until the first energy crisis that the Japanese sought to understand the nature of the Arab-Israeli conflict for historical and geographic reasons. Unlike the West, which owes so much of its religious and cultural heritage to the Semitic civilization of the Middle East, Japan historically had little contact with the region. In addition, the geographic and cultural distance between the Middle East* and Japan probably accounts for the

*The author prefers to use the term West Asia to refer to the collection of nations generally called the Middle East. For the sake of consistency, however, with the other contributions to this volume and to avoid confusion on the part of the reader, the term Middle East is substituted throughout.

1. Ghassan Kanafani, *Taiyo no Otokotachi/haiha ni Modotte* (Men in the Sun/Upon Return to Haifa), translated by Toshiro Kuroda and Mutasaki Nutahara (Tokyo: Kaide Shobo, 1978), p. 99. To summarize, two Palestinians hire a water truck driver to sneak into Kuwait for jobs. They hide inside the water tank while the driver is questioned by border guards. This takes so long, that the driver discovers later that both men are dead from heat. The driver hits the fender, uttering the cry quoted here.

2. Nobuo Asai, *Chutoenshikaku* (A Perspective on the Middle East) (Tokyo: Nihon Hoso Shuppan Kyokai, 1986), p. 14.

nonchalant attitudes exhibited by the Japanese despite their seemingly exclusive reliance on the Gulf region for its primary energy source. The energy crisis has brought significant changes: it hit the Japanese at home, awakened them to their vulnerability, and caused the government to swiftly and ostentatiously modify its official policy toward the Arab-Israeli conflict.

Perhaps the most significant decision the United States made recently on the Arab-Israeli conflict was to enter into talks with the Palestine Liberation Organization (PLO) on December 14, 1988, following Chairman Yasir Arafat's acceptance of the United States' longstanding demands of recognizing Israel and renouncing terrorism. Japan reacted quickly to this development; Foreign Minister Sosuke Uno's office called the PLO office in Tokyo in the late afternoon of December 14 Tokyo time (before the United States announced its decision) to ask Director Baker Abdul Munem to see the foreign minister officially for the first time. At that meeting, on December 15, Uno informed him of the Japanese government's positive evaluation of Arafat's decision. This meeting took place less than eight hours after the U.S. decision was announced by Secretary of State George Schultz.

This incident illustrates the extent to which Japan became sensitive to the Arab-Israeli conflict. It also reinforces the point made in other papers in this volume about the role Japan-U.S. bilateral relations play in Japan's policy towards the Arab-Israeli conflict.

The objective of this paper is to examine the interplay of these factors in determining Japan's policy towards the protracted Arab-Israeli conflict, with special attention on Japan's voting record at the United Nations. The paper also considers a few alternative scenarios for Japan in the 1990s.

Japan's Policies in the Wake of the Oil Crisis

U.S. secretary of state Henry Kissinger, on his way back from China, stopped in Tokyo on November 15, 1973, to urge Prime Minister Tanaka not to tilt Japan's policy toward the Arab side. The prime minister asked if the United States would supply the oil Japan needed. The answer was negative, to which the prime minister reacted by stating that "Japan must seek its own national interest."

A few days later on November 22, 1973, chief cabinet secretary Susumu Nikaido officially announced the new Japanese policy, which consisted of three points:

- 1) Endorsement of the Palestinians' right to self-determination and support for implementation of Security Council Resolution 242.
- 2) Inadmissibility of acquisition and occupation of any territories by the use of force, the withdrawal of Israeli forces from all occupied territories, and respect for the territorial integrity of all nations as necessary peace conditions.
- 3) A warning to Israel that Japan might reconsider its policy toward Israel if it did not withdraw from the occupied territories.

This announcement by Nikaido became the foundation upon which Japan has based its subsequent policy toward the Arab-Israeli conflict. Japan, along with France and Italy, recognizes the "PLO mission" which used to be called the "PLO office," however, Japan does fall short of recognizing Palestine as an independent state.

Japan calls on Israel to recognize the PLO now that the PLO has recognized the right of Israel to exist in peace with its neighbors. Japan also goes beyond UN Security Council Resolution 242 to ask Israel to withdraw from all occupied territories, including East Jerusalem, and it supports an international conference to resolve the protracted crisis in the region.

Japan has recently indicated a willingness to be more active in promoting peace in the region, and the 1980s increased high-level contacts. In his meeting with Foreign Minister Moshe Arens in Tokyo last November, Foreign Minister Taro Nakayama agreed to develop a consultation mechanism to bolster Japan-Israel bilateral relations.³ On the other side, the PLO's economic affairs and planning department director Ahmed Abu Ala' met with Ministry of Foreign Affairs officials on April 24, 1990, to hold a working-level meeting in Tokyo.⁴ In the Japanese legislature, there is a Diet Members' Alliance for Japan-Palestine Friendship, as well as a Diet Members' Alliance for Japan-Israel Friendship. The difference is the former is supported by all political parties in Japan while the latter is not. The Palestine friendship group invited PLO chairman Arafat to visit Japan during an alliance trip to Lebanon, at which time Masaharu Gotoda (a senior Liberal Democratic Party Diet member) claimed he extracted a promise from Arafat to constrain Palestinian-trained Japanese Red Army radicals from attacking Japanese targets. In response to the invitation, Arafat made his first trip to Japan in October 1981, at which time he met with Prime Minister Suzuki, Foreign Minister Sonada, representatives of all parties, and many other economic and political leaders. In addition, the PLO representative in Tokyo, Fathi Abdul-Hamid, was invited (as an individual and not in his official PLO capacity) by the Ministry of Foreign Affairs to the emperor's birthday on April 29, 1983.

On the other side of the relationship, then-Israeli foreign minister Yitzhak Shamir was invited by the Ministry of Foreign Affairs to visit Japan on September 6, 1985, for the first time. This historical event was characterized by the media as an effort to placate the United States in light of the worsening Japanese bilateral trade surplus. Then-Foreign Minister Sosuke Uno paid a one-day visit to Israel on June 22, 1988, the first ever by a Japanese cabinet official, and spent a considerable time with Palestinians as well.

In October 1989, Chairman Arafat was officially invited by the government (rather than by the unofficial Diet members group) to visit Japan, which was

3. Gretchen Green, "Japan and Israel Discuss Ties," *JEI Report*, no. 45B, December 1, 1990, pp. 10-11.

4. Jon Choy, "Japan Expanding Middle East Role," *JEI Report*, no. 18B, May 4, 1990, pp. 3-6.

followed shortly by Israeli foreign minister Arens' visit in November. Press coverage of these two visits suggests that there was more agreement between Arafat and Japanese government officials than between Arens and the Japanese, who pressed for Israel's acceptance of the U.S. peace proposal.

Although Japan's policy has taken a more positive tone towards the Palestinian side, particularly since 1973, Japan certainly has shown no intention of severing diplomatic ties with Israel. In fact, trade between Israel and Japan has been on the rise in recent years. Indicative of these improving economic ties, Keidanren (the Japan Federation of Economic Organization, the most powerful business organization in the nation), sent a 12-person mission to Israel in November 1987. Subsequently, an Israeli delegation of business leaders paid a visit to Japan.⁵ Furthermore, the Israeli embassy in Tokyo has encouraged small and medium-sized firms in Japan to trade with Israel, since many of them have no ties to Arab business.⁶

There is no reason to doubt Japan's sincerity in desiring peace and political stability. Japan maintains a firm policy of not shipping any arms abroad, and it is not likely to change this policy in the 1990s.

Japan's Voting Record at the United Nations

Table 1 presents a summary of Japan's UN voting record on the Arab-Israeli conflict. The entries represent resolutions that were introduced and voted upon. As a rule, all resolutions voted upon pass the United Nations' General Assembly. When a resolution contains several paragraphs that differ in nature from one another, they are divided up and voted upon separately. On three occasions, Japan voted differently on separate paragraphs from the way it voted for the whole resolution, but for the purpose of this table, only Japan's votes for whole resolutions are used.

There are several inferences that can be drawn from table 1. First, there was a sharp increase in the number of resolutions introduced and passed at the UN after the energy crisis of 1973. Perhaps this reflects the extent of the impact the Organization of Arab Petroleum Exporting Countries (OAPEC) had on the world as a whole. The number of resolutions can be considered an indication of the member nations' concern for the Palestinian problem.

Second, notwithstanding Nakaido's announced "pro-Arab" policy of November 1973, there are no signs that Japan became more pro-Arab. In fact, if anything, Japan's record shows increased opposition to UN resolutions in the

5. Nobuo Asai, "Nichibei Masatsu ni Rendo Suru Chuto Gaiko," (Middle East Diplomacy Linked to US-Japan Friction) *Keizai Orui*, June 1988, p. 59.

6. Willy Stern, "What Should Japan's Role be in the International Society?" in The Middle East Institute of Japan, ed., *Problems of Maintaining Peace and Security in the Gulf and Japan: Perspectives for the Middle East in the 1990s* (Tokyo: The Middle East Institute, 1989), pp. 159-167.

TABLE 1
Japan's UN Voting Record by Year

Year	For	Abstention	Against	Total
1957	4	0	0	4
1958	3	0	0	3
1959	2	0	0	2
1960	2	0	0	2
1961	4	1	0	5
1962	1	0	0	1
1963	3	0	0	3
1964	0	0	0	0
1965	2	0	0	2
1966	3	0	1	4
1967	4	0	0	4
1968	2	0	0	2
1969	1	2	0	3
1970	3	2	0	5
1971	4	2	0	6
1972	4	2	1	7
1973	7	0	0	7
1974	11	0	0	11
1975	8	6	1	15
1976	17	0	0	17
1977	7	7	1	15
1978	15	8	1	24
1979	19	7	0	26
1980	8	10	0	18
1981	13	17	1	31
1982	18	10	3	31
1983	18	10	2	30
1984	16	8	2	26
1985	5	10	1	16
1986	12	10	1	23

Data Sources: George Tomeh, ed., *United Nations Resolutions on Palestine and the Arab-Israeli Conflict*, vol. 1 (Washington, DC: Institute for Palestine Studies, 1975); and Regina Sharif, ed., *United Nations Resolutions on Palestine and the Arab-Israeli Conflict*, vol. 2 (Washington, DC: Institute for Palestine Studies, 1988).

1980s. Since 1984, Japan has been abstaining more often than voting in favor of resolutions.

A possible reason for this incongruity between Japan's UN voting record and the government's official position, is that Japan needed to maintain good bilateral

relations with the United States. As noted before, this important bilateral relationship was constrained by the burgeoning U.S. trade deficit with Japan, particularly after 1980. Japan may have voted with the United States, or at least abstained from voting for the U.N. resolutions with increased frequency in order not to offend its close ally. Furthermore, one of the basic premises of Japanese foreign policy is to be neutral and maintain workable relations with as many countries as it can. This is done with little attention to ideology, and emphasizes equidistance between belligerent nations, such as policy toward the two Chinas or Iraq and Iran.

Third, after the second energy crisis subsided in the early 1980s, there was a world oil glut. The Gulf was not as important as it was when the supply of oil was limited and the price high.

Several further observations relate to table 1. The resolutions for which Japan cast negative votes or abstained from voting since 1973 do not necessarily contradict Nikaido's policy. In addition, Japan appears to have been consistent in voting against or abstaining from voting for the same or similar resolutions that are introduced year after year.⁷ Finally, although Japan may have attempted to appease the United States by voting more often with the United States against Arab-cause resolutions in the 1980s, Japan's voting record is more even-handed than that of the United States and is often at odds with the United States, however, Japan generally voted against UN resolutions which would have further isolated Israel from the rest of the world.⁸

In short, Japan's voting record at the United Nations suggests that Japan does not align itself with either the Arab world or the rest of Asia and Africa (the countries of which regions frequently if not always vote for pro-Arab UN resolutions on the Arab-Israeli conflict). Japan's record is closest to that of the Western European countries.

The Basic Factors in Japanese Policy

Japan's basic position appears to be based on the government's belief that the nation benefits most by maintaining good relations with all countries in the world since the constitution renounces war as a sovereign right. The need for resources from the outside world makes it imperative for Japan to take this stance, and the choice is reinforced by the Japanese language and culture. The Japanese approach the world in a syncretic way: not pros or cons, enemy or friend, believer or non-believer, Christian or Jew, but rather Christian, Jew, and Muslim together. This approach is entirely consistent with Japan's long historical religious tradition of syncretism, simultaneously embracing Buddhism and Shintoism. Study of

7. For example, Japan voted consistently against an identical resolution UNREA introduced in 1982 (37/120F), 1983 (38/83F), 1984 (38/83F), and 1986 (41/69F).

8. This is apparent in Japan's vote on UN resolutions 37/123A, 38/180A, 39/146B, and 40/168B.

Arabic, English, and Japanese languages suggests that Arabs thinking in Arabic are most likely to be decisive in choosing one or other of two extreme answers while Japanese (or Americans) thinking in Japanese are least likely to do so.⁹ They are most likely to choose middle-response category answers such as "it depends on . . ." rather than to say "Yes" or "No." Arab students thinking in English are less decisive than when using their own language.

This point is underscored in public opinion surveys conducted in Japan on Middle East issues.¹⁰ Although questions on the Iraq-Iran War and the importance of Japan's relationship with the Middle East were included among the questions in the opinion surveys reviewed, not a single question asked the Japanese public to take sides on the Arab-Israeli conflict. This was not a feasible question to be asked in the context of the Japanese language. Many public opinion surveys in the United States and elsewhere, on the other hand, have included such questions.¹¹

The Japanese approach is to ask what Japan can do to bring about an end to the protracted conflict without establishing who is right or wrong from a universal human rights perspective. This attitude has been criticized by some, including Dominique Moisi, who argues that Japan's perception of taking the middle position is both opportunistic and tilted toward Iran,¹² but this author sees this pattern as stemming from deeply rooted cultural and linguistic characteristics rather than opportunism.

Beyond this general tendency to avoid taking sides, Japan's policy toward the Arab-Israeli conflict has been motivated by a number of more specific considerations. Energy dependency is the most obvious. Even though Japan's relationship with the Arab world is much more recent than that of the West, Japan's need of the Arab world is much greater because of this oil dependence. This economic relationship, however, is not always smooth. As articulated by Jordan's Crown Prince Hassan, despite Japan's dependence on Arab countries for its energy supply, Japan really has not invested much in the Arab world.¹³ Furthermore, in the middle of June 1989, several Japanese companies caused considerable protest

9. See Yasumasa Kuroda and Tatsuzo Suzuki, "Language and Attitude: A Study in Arabic, English, and Japanese on the Role of Language in Cross-Cultural Thinking," in Donald M. Topping, Doris C. Crowell, and Victor N. Kobayashi, eds., *Cross-Cultural Thinking* (Hillsdale, New Jersey: Lawrence Erlbaum Associates, 1989); or Yasumasa Kuroda, Chikio Hayashi, and Tatsuzo Suzuki, "The Role of Language in Cross-National Surveys: American and Japanese Respondents," *Applied Stochastic Model and Data Analysis*, vol. 2, no. 2, 1986, pp. 43-59.

10. Yasumasa Kuroda and Nobuo Asai, *Japanese Public Opinion on West Asia* (unpublished manuscript, Department of Political Science, University of Hawaii, 1987).

11. Fouad M. Moughrabi, "Public Opinion, Public Policy and the Israeli-Palestinian Conflict," *American-Arab Affairs*, no. 30, Fall 1989, pp. 40-51.

12. Dominique Moisi, "A European Perspective," in Jabber, Sick, Okazaki, and Moisi, eds., *Great Power Interest in the Persian Gulf* (New York: Council on Foreign Relations, 1989), pp. 58-73.

13. Saburo Okita, "Nihon to Arabu," (Japan and the Arabs) reprinted in *Hawaii Hochi* (October 19, 1989), p. 2; this is also underscored in this author's interview with Crown Prince Hassan on April 6, 1990.

when they aggressively bargained for the purchase of crude oil through direct deals with Kuwait, Qatar and the UAE.¹⁴

These problems suggest that there is a need for Japan to develop closer and more constructive human contacts with the Middle East, and not just for the sake of buying oil. Reinforcing this point, Tomio Uchida, deputy director general of the Middle East and African Bureau of the Japanese Ministry of Foreign Affairs, recently stated that there is an urgent need for Japan to develop a more lasting and "intimate relationship with the Middle East through political dialogue and cultural exchange" beyond trade.¹⁵ The establishment of such a bilateral relationship is essential to Japan's energy security, but the oil glut decade of the 1980s made the Japanese forget about their own vulnerability.

The second major specific factor emphasized in this paper has been the influence of the bilateral relationship with the United States. Japan has not always supported U.S. government policy on the Arab-Israeli conflict, and the U.S. government has been displeased with some of Japan's initiatives, such as the formal invitation extended to Chairman Arafat to visit Japan in October 1989. Nevertheless, the overriding importance of Japan's relationship with the United States has placed constraints on the ability or willingness of the Japanese government to distance itself from U.S. positions.

A final consideration in Japanese policy formation is that, unlike the United States, where interest groups may be responsible for the unusually anti-Arab policy maintained by successive U.S. administrations, Japan has no powerful domestic pressure groups attempting to influence the Japanese government on the Arab-Israeli conflict. There are some pro-Israel and pro-Arab groups in Japan, but they cannot by any stretch of the imagination compare to the strength of Jewish groups in the United States.

The last decade also brought strong concern from American Jewish communities over the popularity of anti-Semitic books in Japan by such authors as Masanami Uno.¹⁶ The books were popular but filled with inaccuracies to the point that no scholars in Japan took them seriously. Some American Jews have shown such extreme sensitivity to the new wave of anti-Semitic literature that several conferences were held between them and Japanese government officials and others. These books certainly have not helped either the Arabs or Israelis improve their relationship with Japan.

14. *Nihon Keizai Shimbun*, October 14, 1989, p. 4.

15. Tomio Uchida, "Peace in the Middle East—Economic and Political Opportunities for the United States, Arab Countries and Japan," unpublished paper, 1990.

16. Masami Uno, *Yudaya ga Wakaru to Sekai ga Mietekuru* (The World Becomes Clear When You Understand Judaism) (Tokyo: Tokuma Books, 1986).

Looking to the Future

Given these basic factors which have helped to shape Japan's policy toward the Middle East and the Arab-Israeli conflict, and given expectations for the oil market in the 1990s, what is the likely scenario for the future? Japan and the United States do not mind having the oil glut continue and having their bilateral relations improve. Israel also prefers the oil glut to continue, but it prefers to see Japan and the United States continue with their trade problems. The 1980s were characterized by worsening U.S.-Japan relations, deriving mostly from the rising bilateral trade imbalance and oil glut. These two trends had a beneficial impact on Israel in that Japan was constrained by its concern over the state of relations with the United States from taking bold steps to demonstrate its official pro-Arab policy of 1973. The oil glut also contributed to cooler Japanese attitudes toward the Arab nations and warmer gestures toward Israel.

The current oil glut is likely to disappear and world dependence on the Gulf is likely to increase in the 1990s. As for U.S.-Japan bilateral relations, Japan is likely to continue its trade surplus, but at a reduced level, and as Japan continues to gain financial strength in the United States, Japan is likely to develop greater clout with the United States in the 1990s. For these two reasons, efforts to promote better relations between Japan and Israel may be painstakingly slow.¹⁷

Many Japanese authors urge a more independent policy toward the Middle East in general and the Arab-Israeli conflict in particular.¹⁸ Furthermore, the Ministry of Foreign Affairs points to its efforts to be independent in its policy-making toward the Middle East.¹⁹ Other authors also urge Japan to be more active in the region, not only economically, but also politically and culturally.²⁰

Closer cultural contact between Japan and the Middle East has been stressed in the 1980s through a number of conferences held in Tokyo, sponsored by groups such as the Japan National Committee for the Study of Arab-Japanese Relations, the Japan Foundation, the Japan Cooperation Center for the Middle East, and the Gulf Organization for Industrial Consulting. The continuing oil glut, however, seems to have dissipated enthusiasm for cultural exchange between Japan and the

17. Willy Stern's, "What Should Japan's Role be in the International Society?" anticipates this scenario.

18. See, for example, Nobuo Asai, "Nichibei Masatsu ni Rendo Suru Chuto Gaiko"; Shigeki Koyama, *Sekiyu to Chuto Ga Sekai O Kimeru* (Tokyo: Jiji Tsushinsha, 1987); or Koyama, "Japan's Response to the Global Oil Market," unpublished paper, 1989.

19. Shoichi Howari, *Nihon Chuto Gaiko 'Sekiyu Gaiko' Kara no Dakkyaku* (Escaping from 'Oil Diplomacy' in Japan's Middle East Diplomacy) (Tokyo: Kyoikusha, 1980), p.120-126. Howari questions the success of the Ministry of Foreign Affairs in achieving this goal.

20. Proponents include Yoshiki Hatanaka, "The Relationship between Japan and the Middle East, Particularly Egypt from Economic Point of View," unpublished paper, 1990; Willy Stern, *What Should Japan's Role be in the International Society?* and Omar Taha, *What Should Japan's Role be in the International Society?* in the Middle East Institute of Japan, ed., *Problems of Maintaining Peace and Security in the Gulf and Japan: Perspectives for the Middle East in the 1990s* (Tokyo: The Middle East Institute, 1989); or Tomio Uchida, "Peace in the Middle East—Economic and Political Opportunities for the United States, Arab Countries and Japan," unpublished paper 1990.

Arab world. When Foreign Minister Sonoda visited Saudi Arabia in January 1978, he proposed to develop Japan-Middle East cultural exchange centers in various parts of the region. His dream is yet to be realized.

Japan has contributed financially to the United Nations Relief and Works Agency (UNRWA) as well as the UN peacekeeping forces in the past. If the nation is to play an active role in assisting regional peace and stability, it should depart from the past practice of simply providing bilateral foreign aid and other forms of assistance through the United Nations. One possibility is to develop a joint peace fund for Israel and Palestinians which would assist both sides in their efforts to build peace and stability. Shigeki Koyama has also proposed a "Japan Fund" to assist economic development in the region but advocates strict avoidance of political implications. What I propose, however, is different in that the use of the fund should be contingent upon the willingness of Israelis and Palestinians to mutually agree to work on such projects as the development of water resources and the construction of a mass transit system between Gaza and Jerusalem and Jerusalem to Tel Aviv.²¹

Japan could also develop closer ties with both Israel and the Palestinians in such a manner as to win the trust of both parties, as Japan has done in maintaining good working relations with both Iraq and Iran (notwithstanding criticisms from both the United States and Europe). What I propose for Japan to do is to be itself in pushing for an independent policy to bring about peace and stability in the region which will benefit Japan. It is uniquely qualified culturally, financially, and constitutionally to play a key role for peace in the Middle East. There is a need for more Palestinians and Jews to have the courage and wisdom to work together to build peace. The Palestinian leadership is capable, hopefully, of working together with Jews and Israelis who will accept them as equal partners in learning to share their homeland with Jewish neighbors. Japan can encourage this to happen by providing the resources necessary for their joint efforts.

21. The mass transit system was proposed to this author by Faisal Hussein during an interview in 1990 in Jerusalem.

JAPAN AND THE GULF

Kazuo Takahashi

Japan's diplomatic objectives in the Persian Gulf are twofold. First, Japan endeavors to maintain friendly relations with all the countries in the region so as to secure a stable supply of oil. This goal proved to be elusive during the past decade because of the Iran-Iraq War. Japan's second objective has been not to offend the United States.

These two diplomatic objectives are not necessarily mutually exclusive, but over the past 20 years they have come into conflict with one another. One such instance took place during the last phase of the Iran-Iraq War. The United States had asked Japan to cut back its economic transactions with Iran, including the purchase of Iranian crude oil, in order to put pressure on Tehran to accept United Nations (UN) Security Council Resolution 598 (calling for an immediate cease-fire and an immediate withdrawal to the internationally recognized border). Japan's desire to maintain its oil supplies and also maintain good relations with Washington were placed in conflict. This paper touches upon this dilemma for Japan in its relations with the Gulf countries since the 1988 cease-fire in the Gulf war.

The Iran-Iraq Conflict

With the help of hindsight, one could well make a case that 1987 was a watershed in the Gulf war. In the first two months of that year, Iran mounted a major offensive that turned out to be its last major offensive against Basra. Iran failed in its goal to capture this second largest city in Iraq. In the summer of that year the United States deployed the largest armada of warships seen since the end of World War II in and around the Persian Gulf to protect Kuwaiti tankers reflagged under U.S. colors. The United States also sought the cooperation of its allies in this escort operation. At the same time the United States lobbied hard at

the United Nations for passage of Security Council Resolution 598. Furthermore, U.S. policy had been to undermine Iran's economic base, including a boycott of Iranian oil. Washington banned the import of Iranian crude oil in 1986 and asked its allies—including Japan, the largest importer of Iranian oil—to cut back their purchases.

Japan followed American initiatives, but without much enthusiasm. In the case of help with the escort operation, Japan's constitution prohibited it from sending ships so Japan avoided offending Iran. As a compromise gesture, Japan offered to set up an electronic navigation assistance facility in the Persian Gulf. The Japanese government was not entirely happy with Resolution 598, and suspected that it was formulated to provoke an Iranian rejection so that more stringent measures could then be brought against Tehran by the United States under the auspices of the United Nations. Japan, together with West Germany and Italy, resisted the inclusion of a call for immediate withdrawal in the resolution only to give up in the face of an urgent appeal by the United States backed by most of the Arab world. Japan's diplomats argued that the cease-fire resolution should reflect the reality on the ground of Iran's occupation of pieces of Iraqi territory at the time. They argued that this would make the resolution more palatable to Iran's leadership, increasing the chance for peace. Calling for an immediate cease-fire was all right, but calling for an immediate withdrawal to the internationally recognized border was thought unrealistic. When the war broke out in 1980, the Security Council had called for an immediate cease-fire, but never for an immediate withdrawal. Furthermore, such a mutually agreed upon border ceased to exist after Iraqi president Saddam Hussein tore up the Algiers Accord on television. This document, which delineated the border, was signed in 1975 between Saddam and the late shah of Iran.

More importantly, the "request" by the United States to reduce Japan's economic transactions with Iran put Tokyo in a predicament. Economic friction with the United States was—and still is—a major diplomatic issue. Given the overall importance of the United States in Japan's foreign policy and the continuing bilateral economic frictions, Japan could ill afford to turn down the U.S. request and thereby risk increased bilateral tension. According to one official, both the Middle Eastern and African Affairs bureaus of the Ministry of Foreign Affairs (MOFA) and the Office of Middle Eastern and African Affairs of the Ministry of International Trade and Industry (MITI) shared the view that Japan should stand firm against U.S. pressure in order to preserve its relations with Iran.

The amount of Iranian oil contracted by Japanese companies, however, fell sharply in the first quarter of 1987, and this appeared as a steep decline in actual deliveries from November of that year, when imports fell by more than 35 percent from the previous month. The cause of this sharp decline is still disputed. According to Japanese oil importers, they were following MITI's instructions. MITI has never admitted this, however, and even maintained that the oil

companies were using MITI as a scapegoat for their own decision to reduce imports of Iranian oil on purely business grounds (such as the risk of Iraqi bombing of their tankers and the uncompetitive price of Iranian oil).

Washington also asked Japan not to export to Iran goods with a potential military use. For example, the United States asked Komatsu, a manufacturer of construction machinery, to stop selling its bulldozers to Iran, and not so subtly hinted that failure to comply might jeopardize its U.S. market. Komatsu took the hint.

Had Washington decided to escalate its tactics to isolate Iran further, the next possible step for Japan could well have been to halt the importation of Iranian oil completely. The Japanese government was considering the options available in this extremity. One would have been to reject the U.S. request and to maintain economic relations with Iran, but at the time Japan had enough trade friction with the United States; defying Washington might have aggravated bilateral trade problems even further. The other option was simply to succumb to U.S. pressure and stop purchasing Iranian oil. This option would have meant joining in America's "Iran bashing" in order to deflect "Japan bashing." Tokyo, however, has to live with its dependence on foreign oil for many decades to come. U.S. policy toward Iran might change, but Japan would need to deal with Iran for a long time. The Japanese government felt it could not afford to offend Iran. In short, neither option seemed at all attractive.

In the meantime, the Japanese were keeping their fingers crossed, hoping that something might turn up so that they could avoid the worst scenario. Something unforeseen did indeed happen. An Iranian airbus was shot down over the Persian Gulf and the time of reckoning seemed to be approaching. The storm clouds appeared to be gathering, but out of a clear blue sky (or so it seemed) the Iranian government announced its acceptance of UN Security Council Resolution 598, cutting the Gordian knot of the Japanese dilemma in the Persian Gulf. Japan no longer had to face the choice between Iran on one hand and the United States and the Arab oil producers (including Iraq) on the other. Furthermore, the cease-fire would be followed by reconstruction in both Iran and Iraq, opening up huge business opportunities for Japan. Tokyo had remained neutral during this war, avoiding being branded as either pro-Iran or pro-Iraq which could not be bad for business. Indeed, Japan had managed to maintain diplomatic relations with both countries throughout this long war.

Japan-Iran Relations

Japan's relations with both Iran and Iraq were, however, not without problems. So far, Japan has not started investing in these two countries in a big way. Iran's new policy of opening up to the West after the cease-fire bogged down almost before it got started. In the controversy surrounding the *Satanic Verses*, which began in 1989, West European countries recalled their ambassadors from

Tehran in protest against Ayatollah Rouhollah Khomeini's death sentence against the author, Salman Rushdie. Americans were appalled, but had no ambassador to recall. Japan did not join in this initiative but chose to convey its disapproval to the Iranian leaders through its ambassador. Also, when the vice president of Iran visited Tokyo to attend the funeral of the late emperor, the Ministry of Foreign Affairs used the opportunity to express its displeasure. Although this episode represented a temporary setback, it did not really derail Japan-Iran relations.

A more significant issue that required settlement was the Iran-Japan Petrochemical Company (IJPC). This huge petrochemical project was begun in the days of the late shah as a joint venture, although some pundits unkindly dubbed it later a "joint adventure." Iran and four companies of the Mitsui group of Japan agreed to build a petrochemical complex at Bandar Shahpur on the Persian Gulf not far from the Iraqi border. The name was changed after the revolution to Bandar Khomeini. The four companies committed themselves to this project at the beginning of the 1970s in return for a promising oil concession in the province of Luristan. Luristan, however, proved to be a big disappointment. Many bore holes were dug, but virtually no oil was found.

The Mitsui companies were stuck with the project. At the time, Iran was considered to be the safest location in the Middle East, because of the perceived stability of the shah's rule. Besides, Japan was too dependent on Iranian oil to risk offending the shah by withdrawing from the project. Furthermore, because Iran did not join its Arab neighbors in the oil embargo during the first oil crisis in 1973-74, it was thought imperative for Japan to cultivate the good will of such a secure supplier of oil. The Japanese companies went ahead with the project.

Late in 1978, the revolutionary situation disrupted the completion of the complex, but the new government under Prime Minister Mehdi Bazargan requested the Japanese to complete the project as a monument to Iranian-Japanese friendship and because the new revolutionary government wanted to demonstrate its commitment to the modernization of Iran. Subsequently, however, the Iran-Iraq War flared up and forced Japanese personnel to flee the complex. Repeated bombing by the Iraqi air force turned the nearly completed petrochemical complex, which had cost more than \$2 billion, into rubble.

The Mitsui companies had written off the project as commercially unfeasible and hoped to withdraw and cut their losses in this misadventure, but they had signed an agreement with Iran which barred the unilateral withdrawal by one party from the project without the consent of the other. They had no choice but to stay until Iran freed them from their contract. For one reason or another, Iran insisted on the project's continuation, and no amount of persuasion could induce Iran to alter this position. As long as this complex issue remained unsettled, economic cooperation between Japan and Iran was stalemated.

With the passage of time, the death of Ayatollah Khomeini, and a deepening economic crisis, economic rationality began to resurface in Tehran. The Iranian government began to talk about compensation as a condition for freeing the

companies from the obligations of the contract. Bazaar-style haggling began. Tehran initially asked for ¥300 billion (approximately \$2 billion at 1990 exchange rates) but eventually settled for ¥130 billion (approximately \$870 million). With this agreement in the autumn of 1989, the Mitsui companies finally announced the end of this ill-fated saga. Although the agreement still has to be approved by the Iranian parliament, the Japanese companies do not expect any further problems.

With this ¥130 billion from the Mitsui settlement, Iran can finance projects for reconstruction, some of which will surely be contracted to Japanese companies—including those of the Mitsui group. Furthermore, a substantial part of this ¥130 billion cost to the Mitsui group is expected to be covered by MITI export insurance. MITI is clearly giving its blessing to the Mitsui settlement and committing Japan to the reconstruction of the Iranian economy. With this issue resolved, the prospects of economic cooperation between Japan and Iran have improved substantially.

Iran is keen to learn from the Japanese experience of recovery and development, given the devastation of World War II, and to attract Japanese investment. Working-level visits have been exchanged frequently. For example, in February 1989, Iran sent a team of 24 vice ministers and ministerial advisors to a seminar in Tokyo titled "Iranian Economic Reconstruction and the Japanese Experience" sponsored by Keidanren (the most influential business organization in Japan) and the Iranian embassy in Tokyo. Soon afterwards, President Ali Akbar Hashemi-Rafsanjani appointed one of the seminar participants, Noorbakhsh, to be economic minister, and the Iranian ambassador to Tokyo, Adeli, to be governor of the central bank of Iran.

In March 1990, Keidanren's vice president, Masao Kanamori of Mitsubishi Heavy Industries, led an economic cooperation mission to Iran for a one-week visit. More than 70 executives and staff of leading Japanese companies joined this mission to meet high-ranking officials of the Iranian government, including President Hashemi-Rafsanjani, oil minister Ghulam Reza Aqazadeh, and Foreign Minister Ali Akbar Velayati. This was Keidanren's first mission to Iran in almost two decades. The Iranian officials stressed the potential of their economy and President Hashemi-Rafsanjani warned the Japanese that now was the time to commit themselves to Iran or others would preempt them. This is exactly the same line that high-ranking officials of the shah's Iran used to use.

Japan-Iraq Relations

Just as the issue of the IJPC had to be resolved before Iranian-Japanese economic cooperation could begin, there were also a number of stumbling blocks on the path to better relations between Tokyo and Baghdad. One was psychological. Iraq perceived Japan's neutrality during the Gulf War as actually tilted toward Iran. Japan did buy more oil from Iran than from Iraq, but this was partly because Iraq had almost no export capacity through the Persian Gulf during most

of this period. This fact, however, did not prevent the Iraqis from feeling that Japan had been pro-Tehran. In addition, Baghdad resented Japan's opposition to international efforts to isolate Iran.

A more substantial issue was debt. During its war against Iran, Iraq accumulated a huge amount of debt to many countries—including Japan. One knowledgeable source estimates that Iraq owes Japan as much as ¥1 trillion (roughly \$6.7 billion). Unlike its debt to Arab countries such as Saudi Arabia and Kuwait, which few expect Iraq to repay, Baghdad had been forthcoming about settlement of its debt to Japan. The Iraqi resentment against the perceived Japanese pro-Iran tilt seems to have evaporated in the face of the Iraqi need for Japan's cooperation in reconstruction and development. Realizing that Japanese companies would shy away from entering new business contracts until a reasonable debt repayment schedule was presented, Iraq offered a plan to allocate 25 percent of its revenue from oil sales to Japan for debt repayment. Tokyo and Baghdad have agreed to this scheme in principle. The beauty of this agreement from Iraq's point of view would seem to be that it gives an incentive to Japan to purchase more crude oil from Iraq.

The Japanese business community, however, was not elated with this settlement because a quarter of Iraqi oil revenues from sales to Japan really was not a substantial sum. One source said without exaggeration that this was barely sufficient to cover interest payments. Subsequently Iraq agreed to increase the payment to 45 percent of oil revenue for Japan. Given the enormity of the debt, Japan will be lucky to recover its loans to Iraq in 10 years even at this higher level of repayment. Moreover, it has proved to be difficult to increase purchase of Iraqi oil because Iraq has been reluctant to offer the price incentives that would be necessary to increase market share in Japan at the expense of other oil exporters. Nevertheless, Iraq's vast oil reserves are attractive enough to persuade Japanese firms to go back to Iraq. Compared with many Latin American debtors, at least Iraq has oil as collateral to pay off its debt. Also, the Japanese are not unmindful of forecasts indicating that the oil market will become tight again further into the 1990s. Iraq's oil reserves are second only to those of Saudi Arabia and would seem to have an irresistible pull.

Therefore, in spite of the unfavorable publicity Iraq and its leader are getting in the Western media, Japan's big business groups are cautiously but seriously considering Baghdad's proposal for the joint development of oil reserves in Iraq. Baghdad has invited Japanese investment in the development of oil fields in Iraq in return for future delivery of oil. In response to this proposal, Japanese firms are talking of committing \$2 billion to \$3 billion to this scheme. In their talks with the Japanese, it is difficult to distinguish between the Iranians and the Iraqis because both are warning that now is the time for Japan to commit itself, or the opportunity will pass. It is interesting to note, however, that the Soviets are too preoccupied to help anybody else, no one expects a massive flow of West European investment into Iraq given the changes in Eastern Europe, and the

United States is not in a position to finance Iraqi development because it does not have friendly relations. Given the continuing twin deficits in budget and trade, the United States does not even have money to invest in Iraq. Among the industrialized countries, only Japan is in a position to invest massively in Iraq, but Japanese businessmen do not seem to be in too great a hurry.

Subscribing to the view that Iraqi oil will become more important in the late 1990s, MITI is encouraging the deepening of economic relations between Iraq and Japan. After the cease-fire, MITI resumed export insurance coverage for goods and services destined for Iraq which had been suspended since 1985. Baghdad can also take advantage of the unused portion of the credit that Japan had offered in 1974 in the aftermath of the first oil crisis. At that time, MITI minister Yasuhiro Nakasone visited Iraq and offered a credit line of ¥1 trillion yen (\$3.3 billion at average 1974 exchange rates) of which Iraq used only ¥600 billion. Because of the oil boom of the 1970s and 1980s, Iraq was not short of cash, but the Gulf war then prevented it from initiating suitable projects to qualify for drawing on this credit. Now that the war is over and Iraq is short of funds, it is expected to utilize the remaining ¥400 billion credit (\$2.7 billion at current exchange rates). Japan has recently extended the term of validity for this credit package to 1993 to facilitate this development.

Relations with Other Gulf States

Japan's relations with the Gulf Cooperation Council (GCC) are also expected to grow, although there are some economic issues to be worked out. One is the question of the participation of Saudi Arabia and Kuwait in downstream petroleum operations in Japan. Kuwait controls some retail gasoline outlets in Europe under the brand name of "Q8," and Saudi Arabia has similar investments in the United States. It is only natural for these countries to have an interest in marketing their oil products in Japan, too, as it is one of the largest markets in the world.

MITI, which has jurisdiction over the oil industry in Japan, initially reacted negatively to the idea of Arabs controlling refineries and filling stations. This was partly because the oil industry in Japan was in the middle of a restructuring process so MITI did not relish any more disturbance. There was also fear that the Arabs might disrupt the market by underselling Japanese competitors and perhaps also the fear of the unknown. Outside of MITI, many analysts welcomed the idea, reckoning that Arab participation in marketing in Japan would encourage stable oil supplies. The story is circulating that in return for Arab participation in downstream operations in Japan, MITI is asking for Japan's participation in upstream operations in Saudi Arabia and Kuwait. Some expect that MITI will be forced to open the door or Saudi Arabia and Kuwait might refuse to renew their concessions to the Japanese-owned Arabian Oil Company (operating in the

Saudi-Kuwait border area) which will expire in the year 2000. This is the only significant crude oil production controlled by Japan.

Any desire of Saudi Arabia or Kuwait to establish sales outlets, however, is quickly cooling due to high stock-market prices and stupendous land prices in Japan. They could not expect a good return on their investments. Besides, participation in downstream operations was initially conceived as a means to eliminate excess crude oil at the time of the glut in the 1980s. Thus, this rationale no longer exists. Furthermore, enormous as it is, Japan's oil consumption is not expected to grow rapidly or substantially. On the other hand, the member states of the Association of Southeast Asian Nations (ASEAN) possess a huge growth potential. Therefore, if the Saudis and Kuwaitis wish to invest in downstream operations, the ASEAN countries, rather than Japan, would seem to be a better bet.

The Gulf oil producers are more interested in Japan as a market for their industrial products, such as secondary feed stocks for the petrochemical industry or aluminum. Indeed, the Gulf area is rapidly making its presence felt in the world market as a major supplier of energy-intensive industrial products. They wish to increase their share in both the developing world and industrialized countries, including Japan. MITI, the traditional mediator of supply and demand for capital-intensive industries such as the petrochemical industry, is now called upon to accommodate the interests of the Gulf countries as well as those of local producers in the Japanese market. In short, industrial adjustment on a world scale is needed and MITI appears willing to acquiesce to deepen economic interdependence between Japan and the Gulf countries.

Conclusion

As a nation helplessly dependent on imported oil, Japan's Middle East policy occasionally has shown visible differences in the past two decades from that of the United States which enjoys a much higher oil self-sufficiency. The first such occasion was the Arab oil embargo of 1973-74, the second was the hostage crisis in 1979-80, and the third and most recent was the last phase of the Gulf war. Japan has been caught in the Middle East between Washington on the one hand and the Gulf oil producers on the other.

In the postwar diplomacy of Japan, the Middle East is the only area in the world where Tokyo has chosen to differ significantly from Washington. Japan initiated an official dialogue with the Palestine Liberation Organization in the mid-1970s while the United States did so only in the late 1980s. Japan has maintained economic relations with Iran in the face of U.S. pressure to join its economic sanctions against the revolutionary government in Tehran during the hostage crisis and at the end of the Gulf war as noted above.

Policy differences between Washington and Tokyo are not merely the function of the difference in domestic oil endowment. Japanese perceptions of the

region and its politics have had an input into formulating a different foreign policy. For example, Japan has regarded the policy of isolating Iran as counter-productive because such a policy might run the risk of encouraging further radicalization. At the outset of the revolutionary government in Tehran, Japan shared the U.S. perception of its fragility but later converted to the view that the Islamic government was deeply rooted in the Iranian psyche and history. Since there seems to be no credible alternative force in sight, the present system is likely to remain in place for a while. Japan may or may not like the system in Iran, but it is not for the Japanese government to tell the Iranians what kind of government they should have. The only rational course for Japan is to deal with the present government in Tehran and encourage its moderation.

Although taking a different approach from Washington, Japanese policy-makers do not regard themselves as sabotaging U.S. policy in the Middle East. On the contrary, they view their Middle East policy as complementary. Japan's link with Iran has served the strategic interests of the West. Some believe that the Japanese embassy in Tehran played a part in preventing the killing of U.S. civilian hostages in Lebanon after the hanging of Colonel William Higgins in Beirut by a Lebanese extremist group sympathetic to Iran. Japan's policy of keeping a channel of dialogue open with Tehran represented just a difference in approach toward the shared objectives of containing the Soviet Union and moderating the radical forces in the region.

This policy of keeping the channels of dialogue open with Tehran, or for that matter with Baghdad, has been possible partly because of the absence of a strong human rights lobby in Japan. The policy of not recalling its ambassador from Tehran after the death threat against Salman Rushdie was possible for that reason. Persecution of the Bahai minority in Iran did not pose any diplomatic obstacle in maintaining close relations between Tehran and Tokyo because no audible voice was raised for Bahais in Japan, to cite another example.

The major cause of the difference of Japan's Middle East policy from that of the United States has been its energy vulnerability. Japanese policymakers would have much preferred to toe the American line in the Middle East if that would have guaranteed a stable oil supply. Japan took a pro-Arab stance in late 1973 only after Secretary of State Henry Kissinger refused to commit the United States to share U.S. oil with Japan in case of a total oil embargo against Tokyo by Arab producers. There is every reason to expect that Japan will continue to pursue its own path in the future.

An almost unanimous view seems to prevail among Japanese policymakers that the oil glut will soon disappear and Gulf oil will become crucial once more. In a sense, the 1980s was the decade in which Japan endeavored to escape from dependence on Persian Gulf oil, but the Japanese have learned that there is no alternative to oil, and that there is no real alternative to the Gulf. Hopes of nuclear energy replacing petroleum have been dashed by the reality of Three Mile Island and the nightmare of Chernobyl. Environmentalists have been putting up increas-

ingly stiff resistance to the construction of nuclear power plants all over the Japanese Archipelago. At the same time, Persian Gulf oil has proved to be more reliable than many feared. The Strait of Hormuz has never been closed and oil kept flowing steadily to Japan throughout the Iran-Iraq War. Furthermore, the Gulf states and Japan have a mutual need for one another. Some oil ministers in the Gulf are preaching to the Japanese the virtues of long-term oil price stability. This is music to Japanese ears. Oil producers, too, have learned a lesson from the economic disruption caused by roller-coaster oil prices in the past two decades. These perceptions and the experience of the past decade are contributing to the renewed emphasis that Japan is placing on its relations with the Gulf states. Perhaps Japan is still dangerously dependent on them, but with increasing financial and technological clout, Japan is entering a new decade of interdependence with the Gulf states.

JAPANESE MIDDLE EAST POLICY: PAST, PRESENT, AND FUTURE

Masamitsu Oki

To begin, I would like to define the region by the Japanese Ministry of Foreign Affairs standard: The Middle East covers 21 countries ranging from Afghanistan in the east to Morocco in the west, and from Turkey in the north to Sudan in the south. Among these countries, Japan established diplomatic relations with Egypt, Turkey, and Iran in the 1920s, which are the oldest ones. The diplomatic relations between Japan and other Middle East countries were subsequently established, and Japan has maintained diplomatic relations with all of them since the early 1970s, when Japan established relations with four of the Gulf Cooperation Council (GCC) countries. Furthermore, Japan has sent ambassadors extraordinary and plenipotentiary to all of the Middle East countries except Afghanistan. As you may know, our embassy in Afghanistan is closed at the moment. From the side of the Middle Eastern countries, 20 countries, excluding Bahrain, have embassies in Tokyo. Furthermore, the Palestine Liberation Organization (PLO) opened an office there in 1977. I would also like to point out that the Japanese Ministry of Foreign Affairs has nearly 100 specialists in Arabic, 13 in Persian, 8 in Turkish, and 8 in Hebrew.

Japan and the Middle East: the Past

I would like to look back to the past relationship between Japan and the Middle East. I do not intend to deny that the relations between Japan and the Middle East were remote in the 1960s. Frankly speaking, it was not until the first oil crisis, soon after the Arab-Israeli conflict in 1973, that the Japanese people were impressed by the significance of the Middle East. The oil crisis made the Japanese people recognize how heavily Japan was dependent on oil produced in the Middle East and how closely Japan's peace and prosperity was linked to

stability in the Middle East. From that time on, Japan's Middle East diplomacy has been more actively developed than before.

One of the outcomes of Japan's active diplomacy was that measures to further promote bilateral relations with the Middle East countries resulted in successive high-level visits from Japan to these countries. In 1974, Foreign Minister Kimura visited Egypt, and in January 1978, Foreign Minister Sonoda visited Iran, Kuwait, the UAE, and Saudi Arabia. In September 1978, furthermore, as the first prime minister ever to visit the Middle East, Takeo Fukuda paid visits to Iran, Qatar, the UAE, and Saudi Arabia. In the 1980s, most of the Japanese foreign ministers made tours to the Middle Eastern countries.

The second point that I would like to make is that Japan has been positively stating its position on the conflicts which threaten peace and stability in the Middle East, and making efforts to help solve the conflicts. Japan clearly recognizes that peace in the Middle East is indispensable for peace and prosperity of not only Japan but also the world. Furthermore, the Middle East countries expect Japan to play a significant role, or to exercise political influence, in international fora commensurate with its economic power, which has risen significantly. Since Japan had not been deeply involved in Middle East history, there is no "negative legacy" between Japan and the Middle East. Therefore, the Middle East countries can expect Japan to make judgments and take actions from a stance free from past experience and deeds. A good example of this role is our dialogue with both the PLO and Israel; Japan received visits from PLO chairman Yasir Arafat in 1981 and from Israeli foreign minister Yitzhak Shamir in 1985.

As for the Iran-Iraq conflict, through continuous channels with both countries, Japan urged both Iran and Iraq to agree on a cease-fire. After the conflict broke out, Japan's foreign minister visited both Iran and Iraq twice; on the other hand, Speaker of the Parliament Ali Akbar Hashemi-Rafsanjani and Foreign Minister Ali Akbar Velayati of Iran, as well as Deputy Prime Minister Taha Yasin Ramadan and Foreign Minister Tariq Aziz of Iraq visited Japan. Using the forum of the United Nations (UN) General Assembly, furthermore, Japan maintained contact with both countries at the foreign ministerial level.

The third point that I would like to touch upon is closer relations in trade and economic cooperation. Along with higher oil prices, demand in the Middle East for consumption expanded and project construction intensified, especially in oil-producing countries. Consequently, exports from Japan to the Middle East expanded rapidly. Japan's export value to this region was \$669 million in 1970, and it reached \$15 billion in 1980. That represents more than a twentyfold increase in 10 years.

Thus, an interdependent relationship in which Japan imported oil and exported complete industrial plants and manufactured goods to the Middle East was strengthened throughout the 1970s.

At the same time, Japan significantly expanded foreign aid in response to the request for economic and technical cooperation from Middle East countries. In

1971, Japan's official development assistance (ODA)—consisting of technical cooperation, grants, and soft loans—to the Middle East was only \$5 million and accounted for only 1.2 percent of Japan's total bilateral ODA. In 1977, however, it amounted to \$220 million and accounted for 25 percent of Japan's bilateral ODA. In the early 1980s, the volume of ODA almost levelled off, but in the latter half of the 1980s, it increased significantly again.

Current Status of the Relationship

The recent wave of change in the Soviet Union and the East European countries has almost swallowed up the world's attention, causing a temporary decline in the world's interest in the problems of the Middle East. It should be remembered, however, that the embers of war and conflict are still smoldering in the region. At the same time, approximately 65 percent of the world's crude oil reserves are said to be concentrated in the Gulf region. In this sense, the world's peace and stability is heavily dependent on stability in the Middle East region.

The cornerstone of Japan's foreign policy toward the Middle East is to contribute toward realizing peace and stability in this volatile and unstable region. In light of Middle Eastern expectations about Japan's role in the region and Japan's diplomatic resources to respond to them, the specific role that Japan can play in the Middle East can be summarized by the following two points:

First, Japan seeks to promote political dialogue among conflicting parties to help bring about peaceful solutions to the problems in the region. In this regard, Japan has extended financial contributions and personnel to the peacekeeping operations of international organizations, one of the main pillars of Japan's foreign policy.

Second, Japan endeavors to strengthen economic and technical cooperation with the countries in the region with a view toward helping their economic development and encouraging them to adopt realistic and moderate political stances.

To elaborate on the first point, Japan never stopped its earnest talks with Iraq and Iran even during the war. Concerning Arab-Israeli conflicts, we invited Chairman Arafat to Japan last October, and through high-level meetings made clear that Japan supported the PLO's recent moderate policy stance. Through our continuous dialogue with the PLO, we will continue to encourage their realistic and moderate position. Last November, we also invited Moshe Arens, the foreign minister of Israel, to come to Japan, and during the talks made clear our position vis-à-vis the Arab-Israeli conflict centering on the principle of land for peace. We also strongly recommended that the Israelis enter into a dialogue with the Palestinian people in line with the proposal developed by U.S. secretary of state James Baker, based on Prime Minister Shamir's election plan.

Japan is also increasing its financial contribution to the Middle East through such organizations as the United Nations. In fiscal year 1989 we provided \$17

million in aid for Palestinian refugees through the UN Relief and Works Agency (UNRWA), \$2 million in aid for Palestinians through the UN Development Program (UNDP), \$1.5 million in contributions to the multinational force and observers in Sinai, and \$125 million in aid for refugees from Afghanistan through the UN Observer Group in Central America (UNOCA). Furthermore, Japan sent one Ministry of Foreign Affairs official each to the UN Iran-Iraq Military Observer Group (UNIIMOG) and the UN Good Offices Mission in Afghanistan and Pakistan (UNGOMAP).

With regard to the second point, Japan has strengthened economic and technical cooperation to the countries in the Middle East, taking into account the specific needs of each country. As for ODA, for example, we have extended grants to the least developed countries (LDCs) such as Sudan and Yemen, and soft loans to middle-income countries such as Jordan, Turkey, and Egypt. To wealthy oil-producing countries such as Saudi Arabia and Kuwait, our cooperation has taken the form of technical assistance.

As for cooperation on a non-governmental basis, there have been strong demands in Middle East states for direct foreign investment. Such requests are particularly strong among oil-producing countries whose economic development has moved beyond the initial stage, with the construction of infrastructures almost completed. Turkey, where the private sector has been encouraged to play an active role in the economy, has shown a strong interest in direct foreign investment. Direct investment by Japanese firms has therefore been especially active in Turkey, Bahrain, and the United Arab Emirates (UAE). In the second Japan-GCC consultations held in February 1990 in Riyadh, Saudi Arabia, the GCC expressed its strong interest in promoting direct foreign investment in GCC countries and encouraging technology transfer through those investments.

I would also like to note that the countries in the Middle East, especially in the Gulf region, have great expectations in regard to technology transfer from Japan on a business as well as official basis. During the past several months, the Japanese government has sent three official technical cooperation missions to the Middle East. The first mission went to Iran, the second to Iraq, and the third to the UAE, Bahrain, Kuwait, and Saudi Arabia. I myself was a member of two of those missions. Both Iran and Iraq have taken an interest in learning from Japan's postwar reconstruction. They recognize that human resource development should form the basis of their economic and social development. I am confident that technical cooperation will be one of the main pillars of Japanese contribution to the Middle East.

The Future of the Relationship

It is obvious from this assessment that the relationship between Japan and the Middle East will become even closer in the 1990s and thereafter. The current interdependent economic relationship, especially, will continue to strengthen.

Japan continues to depend on the Gulf countries for about 70 percent of its crude oil imports, and Japan's share in the total oil exports of the Gulf countries is also growing larger. Looking at the figures of 1988, for example, Japan's share in the oil exports of Oman, Qatar, and the UAE were respectively 54 percent, 58 percent, and 49 percent. Japan's flow of new direct investment in Middle East countries increased sevenfold in just three years, from \$50 million in 1985 to \$370 million in 1988. Japan's ODA to those countries amounted to \$600 million in 1988, a threefold increase from \$200 million in 1980. Trainees accepted in Japan from those countries under government-sponsored programs also increased from 464 in 1985 to 637 in 1989.

High-level visits between Japan and Middle East countries are also becoming very active. During the first five months of this year alone, after the visits of the oil ministers of Saudi Arabia and Iraq, respectively, His Highness Shaykh Zayid Ibn Sultan Al-Nahyan, president of the United Arab Emirates, made a state visit to Japan in May. The visit of President Zayid was part of his official tour of Asian countries and Japan was the third non-communist industrialized country that he had visited officially, after France and Britain. On various occasions during his visit, President Zayid and his ministers stressed that Japan should play a greater role in solving political problems in the Middle East, and that the two countries should have a closer relationship—not only economically, but also politically and culturally, as well as through technical cooperation.

I would like to point out one thing which I see as a bottleneck in this on-going trend toward closer relationships. That is, the tempo of increased mutual understanding between Japan and the Middle East has been relatively slow compared to the accelerating pace of the overall economic relationship. Undeniably, when compared with Western countries, Japan's relationship with the Middle East is a recent phenomenon. Not until the 1970s was the Middle East established as an important subject of regional studies in Japan.

Today we have a number of institutes on the Middle East in Japan, including the Middle East Institute of Japan (which specializes in political analysis of the Middle East), the Japanese Institute of Middle Eastern Economies (which conducts economic research and analysis), and the Japan Cooperation Center for the Middle East (which organizes conferences and seminars on the Middle East). Some universities and colleges are also doing studies on Middle Eastern languages, culture, and history. Despite all these facts, Japan lags far behind Western countries in its depth and coverage of Middle East studies.

In the same way, there is scant knowledge and superficial understanding of Japan on the part of the Middle East countries. To a majority of people in those countries, Japan is still defined by Toyota, Sony, and *karate*. There still remains a wide chasm between Japan and the Middle East in terms of genuine mutual understanding. For example, not a single student of the United Arab Emirates has ever studied in a Japanese university on a scholarship sponsored by the Japanese government, although we have received quite a few for short-term training

programs. Yet, the United Arab Emirates is the largest exporter of crude oil to Japan. When President Zayid came to Japan, however, we agreed on a plan to receive 75 persons in one year under the auspices of a variety of programs, including technical training, youth exchange, and university scholarships.

Getting to know each other—I believe there is much room for progress in this respect. It is incumbent upon both sides to work even harder toward establishing a lasting relationship based on genuine mutual understanding in the years to come.

For many years, the United States and Japan have been preoccupied with the Soviet Union, and the United States has withdrawn its military forces from the Middle East. This has led to a re-evaluation of the United States' role in the Middle East. In the past, the United States has been the dominant power in the region, and its policy has been to maintain a balance of power. However, the Soviet Union's presence in the region has changed this balance, and the United States has had to re-evaluate its role. In the past, the United States has been the dominant power in the region, and its policy has been to maintain a balance of power. However, the Soviet Union's presence in the region has changed this balance, and the United States has had to re-evaluate its role. In the past, the United States has been the dominant power in the region, and its policy has been to maintain a balance of power. However, the Soviet Union's presence in the region has changed this balance, and the United States has had to re-evaluate its role.

Japan and the Middle East has been the overall topic for today's conference. My task is to address the narrower subject of Japan, the United States, and the Middle East. When I began to speak, I thought it was very interesting for me to interpret Japan's policy, but I accepted on the spot the invitation that by this time you would have had a thorough discussion of Japan's foreign and energy policies, its economic and business interests in the region, and for your political speeches to include Japan's role. I wonder if my selection to give this talk reflected an assumption that the audience would be better informed on Japan's political stance, or whether it was intended to give you the "hook" in a discussion that would be more general, and perhaps containing the Middle East and the Middle East. In any case, I am reviewing some of the literature I did discover in the past few years, and I hope the assumptions of some Western scholars writing about Japan's foreign policy and other writing about Arab world policy. This is a very general topic, and I am sure you will find it interesting.

There are two main areas that I will be discussing today. First, I will discuss the different codes of conduct used by Japan and the United States in their relations with the Middle East. Second, I will discuss the practice of international relations between Japan and the United States. Reading the literature on Japan, I find a number of interesting observations on the practice of international relations between Japan and the United States. In particular, I find a number of interesting observations on the practice of international relations between Japan and the United States. In particular, I find a number of interesting observations on the practice of international relations between Japan and the United States.

JAPAN, THE UNITED STATES, AND THE GULF

Richard W. Murphy

Japan and the Middle East has been the overall topic for today's conference. My task is to address the narrower subject of Japan, the United States, and the Gulf. When asked to speak I protested it was *terra incognita* for me to interpret Japan's Gulf policy, but I accepted on the understanding that by this time you would have had a thorough discussion of Japan's foreign aid and energy policies, its economic and business interests in the region, and Tokyo's political approaches to Middle Eastern issues. I wonder if my selection to give this talk reflected an assumption that this audience would be better informed on Japan's political stance, or relatively less interested, or even, perish the thought, an assumption that Japanese policies and diplomacy concerning the Middle East are too inscrutable for deciphering today.

In any event, while reviewing some of the literature, I did discover a surprising parallel between the assumptions of some Western scholars writing about Japan's foreign policies and others writing about Arab world policies. This gives me a starting point.

Some Western Arabists hold that the different codes of conduct used by Muslims when dealing with other Muslims compared to their conduct when dealing with non-Muslims also govern the practice of international relations between Muslim and non-Muslim states. Reading literature on Japan, I find a similar effort to relate the differing codes of individual Japanese behavior to those which Tokyo allegedly applies to the practice of Japan's international affairs.

Never having served in Japan, I might have been tempted to explore this theme as a possible overarching explanation of U.S.-Japanese-Gulf relations. But over the years I have found this counterpart theory so unhelpful in analyzing the international behavior of Muslim states—whether in the case of Shi'i-Sunni relations or the tensions between Sunni-dominated states—that I instinctively

turned away from it as a serious analytical tool in the case of Japan. I will devote my comments instead to assessing in a more prosaic way U.S.-Japanese-Gulf relations, namely the goals the United States shares with Japan in the Gulf region as well as certain differences between us.

Basically, our differences are few and, in my opinion, are mostly differences of emphasis. We both regard the Gulf area as of vital interest to our respective countries. We agree that we should individually, and, where feasible, in concert with other nations, do what we can to encourage stability in that volatile region. For many years, the United States and Japan have been preoccupied with the Soviet Union's efforts to extend its influence in the Gulf; this colored our outlook until our realization of the extent of the sea-changes sweeping Eastern Europe during 1989 and their implications for Soviet power projection in other areas. Some suggest that with that concern now significantly diminished, the door may have been opened for more squabbling between Tokyo and Washington. This strikes me as baseless free-floating anxiety. Until such supposed disagreements assume some tangible form let us not invent problems. We are not on a confrontational course today, nor as far ahead as I can see.

Oil Dependency

The United States shares with Japan the dubious distinction of a growing dependency on foreign oil. We both talk of our worries, on national security grounds, about dependence on such a limited number of countries for our oil imports, and both governments, charged by the public with not doing enough to limit national vulnerability, have taken measures to insulate our respective countries from unexpected shocks through creation of oil stocks. Both countries project increased oil consumption in the years ahead, with Japan's rate of increase running ahead that of the United States. I understand that a new Ministry of International Trade and Industry (MITI) study will revise upwards the projections of Japanese consumption. The inescapable fact is that to supply increased world consumption, the incremental barrels will come from the Gulf, unless some basic changes occur in the investment climate of other producing provinces.

Thus there will be no easy fix for what has been described as the deeply rooted Japanese psychology of vulnerability and resource dependence. Japan has diversified its sources of oil since the first oil crisis of the 1970s but its present consumption of Gulf oil, running at some 55 percent of its total oil imports, is probably irreducible and may well look enviably small from the perspective of the year 2000.

The United States also shares with Japan, although to a lesser degree, a streak of economic nationalism when it comes to encouraging Arab downstream investment in our oil industries. To me, the attraction of such investment lies in the creation of greater Arab awareness of global economic interdependence and of discouraging the oil producers from trying to use oil as a political weapon. U.S.

political leaders may be relatively more relaxed than their Japanese counterparts over such investment, but they hesitate to provoke a xenophobic reaction in the American public by proclaiming publicly a policy of encouraging Arab investment in U.S. refineries and distribution networks.

Foreign Aid

Japan and the United States have both tried to be helpful to the states in the region with grants and concessional loans, especially for those which are not major oil producers. While the great bulk of U.S. assistance has gone to the Camp David partners of Egypt and Israel, Japan has contributed significantly not just to Egypt but also to the economic prospects of Jordan and Oman. Our aid experts have developed a close and continuing dialogue on these questions.

Economic assistance is a comfortable role for Japan. This aid, accompanied by increased cost sharing of the expense of maintaining U.S. forces in Japan unquestionably helped quiet the congressional criticism sounded at the height of our naval commitment in the Gulf during 1987-88 that "the U.S. protects while Japan profits." In summary, Japan's ability to provide assistance to the Gulf region and elsewhere in the Middle East has helped the strategic goal which we share of working to assure sound economic development and regional stability.

Nuclear Non-Proliferation

I would like to touch on one potential area of cooperation which has received little attention from our governments to date. The U.S.-Japan dialogue on nuclear non-proliferation has been intense and longstanding. We should explore together how to focus our joint expertise on this problem, including delivery systems, in the Gulf region and indeed more broadly in the Near Eastern-South Asian region. I am not aware that Tokyo and Washington are jointly pursuing this issue. The industrial nation (G-7) summit discussions in Tokyo in 1986 produced a Missile Technology Control Regime. That is an excellent starting point from which to see whether a similar regime could be negotiated for the Middle East.

The strategic importance of this vast area will not lessen in the years ahead. Given the deep levels of distrust between Arabs and Israelis, between Iranians and Arabs, and among the Arabs themselves, it may be a forlorn hope to stimulate a regional dialogue on non-proliferation and control of all weapons of mass destruction until there has been considerably greater progress in dealing with the political disputes which divide the area. Despite this, however, to delay coming to grips with this problem until there have been broader U.S.-Soviet agreements governing weapons of mass destruction is a prescription for allowing rapid further development of these weapons by scientists indigenous to the region. The Middle East no longer is an area where controls on technology transfer or equipment

applied directly by Moscow or Washington, or even by the European Community, can freeze further regional advances in design and production.

Goals We Do Not Share

I have been discussing some of our common goals and efforts in the Gulf. In the area of commercial competition our only common goal is, and will likely remain, to beat each other senseless in the ring. Japan's trade with the Middle Eastern countries as a whole is now on the scale of its trade with the United States and Southeast Asia. Given its persistently negative trade balance with the Middle East, we can expect to see Japanese companies, encouraged by their government, work to redress that imbalance as much as possible.

Americans must be honest in admitting that some of the reasons behind the loss of the United States' dominant position in Gulf trade is of its own making. In the 1960s U.S. companies were better regarded by the Gulf states than they are today. At that time the finger was pointed at European competitors for sloppy servicing of the contracts they had won; today you hear the same criticism about U.S. firms.

The United States' competition with Japan is fierce, notably in Saudi Arabia where for the last few years we have each gotten between 20 percent and 25 percent of the market. There, as in other states of the region, we both face stiff competition from South Korea, other Asian states, and some of the Europeans.

Commercial interests will always be top priority for Japan, but this does not mean that Japan will neglect its other interests. Our competition will continue, but will not drive all other aspects of U.S.-Japan relations—even in the Gulf. A look at recent Middle East policy provides two obvious examples of U.S. policy working more or less in harmony with that of Japan. In the case of the Iran-Iraq War from 1980 to 1988, the United States was willing to deploy both its diplomatic energies and military forces to help achieve a cease-fire. Japan, restricted by its constitution from committing military forces, and by policy from providing military equipment to support Arab states threatened by an expansion of the Gulf war, nonetheless seriously considered in 1987 providing a capability for mine clearing in the Gulf through dispatch of Japanese Coast Guard units. In the end Tokyo decided not to send these ships, concerned that this could raise constitutional issues and provoke a sharp political debate in the Diet. It was, however, striking to those of us in the U.S. administration at that time that this idea was not instantly ruled out by Japan's leadership.

On the diplomatic side of the ledger, Japanese officials in Tokyo, Washington, and New York worked closely with their American colleagues in the negotiations at the United Nations (UN) Security Council which culminated in drafting and securing unanimous passage of Security Council Resolution 598. Tokyo played a lead role with the Iranians. The United States was active in the Security Council deliberations and in Baghdad, where Tokyo was also at work.

The U.S. government boycotted Iranian oil in 1979–80 and again from 1987 to the present. Japan never joined in this boycott. Nonetheless, import statistics show that, despite the favorable pricing of Iranian oil, Japanese imports during this critical 1987–1988 period of the Gulf war were generally held to previous levels. This stance may well have been the most prudent long-range strategy from both our perspectives.

The *New York Times* recently reported the continuing readiness of Japan to offer “good offices” mediation to the United States and Iran. Tokyo has long provided one of the much-needed channels for the exchange of messages between Tehran and Washington. American-Japanese cooperation in this sensitive area will in all probability continue.

The other policy concern of primary importance to the United States is the Arab-Israeli peace process. I will not discuss the Arab-Israeli situation in detail today, but recognize that developments surrounding the Palestinian issue, as it is referred to throughout the Arab world, do impinge on the concerns of the Gulf states, and to that extent on U.S.-Gulf relations. For its part Tokyo has kept its distance from Washington on Arab-Israeli issues by receiving Palestine Liberation Organization (PLO) chairman Yasir Arafat twice. Japan has also, through Foreign Minister Uno in 1988, declared Japanese support for an international peace conference on the Middle East, for self-determination for the Palestinian people, and for an independent Palestinian state with its capital in Jerusalem. We have chosen instead to have our UN ambassador travel to Geneva in 1988 for a General Assembly session, and last week for the special Security Council session, rather than issue Arafat a visa for New York. The administration has also signalled its intention to try to start separate Palestinian-Israeli talks outside the framework of an international conference, at least as that conference organization has been commonly defined by the Soviets, plus certain European and Arab states.

U.S. differences with Japan on these matters, however, do not seem to run deep. Tokyo has not gone beyond simply declaring its position. As regards the Arab-Israeli conflict, Tokyo appears reluctant to engage intensively, probably because it recognizes the limited interest of its own people in that complicated problem, and because it believes it can serve Japan's national interests well by largely restricting its field of activity to offering aid programs and also because it recognizes it has little clout to apply to the Arab-Israeli conflict. The Japanese government, therefore, tends not to worry unduly about how to resolve that conflict except at those times when Arab-Israeli questions threaten area stability.

Conclusion

Japanese-U.S. cooperation on major issues in the area has been close and will likely remain so and yet, relatively speaking, Middle East issues have not been central to the U.S.-Japan dialogue for any sustained period. It is commonly assumed that in the decade ahead, Japan will seek a greater political role globally.

The question I raise today, but do not pretend to be able to answer, is whether Tokyo will really seek a major political role in the Middle East. It will remain a major aid donor to the area and, as we have heard, will soon overtake the United States as the world's largest aid donor. Should Japan decide to get deeper into some of the peacekeeping functions of the United Nations, this will be warmly welcomed by Washington, but the call will be Tokyo's.

Given Japan's heavy economic dependence on the Gulf region as its major supplier of crude oil, we should not be surprised to see some differing emphases continue to characterize U.S. and Japanese approaches to the region. As to the division of labor between Washington and Tokyo, it will continue to be primarily a U.S. task to promote an active Arab-Israeli peace process. Japan will closely follow how the United States proceeds because the way it carries out its task will affect the scope of moderate Western influence on the whole region. Japan may be more solicitous of Arab opinion than is the United States because Washington must continue to try to orchestrate forward movement in the peace process by bringing Israel along.

I have suggested that weapons proliferation could be a valuable area for us to explore together. In any event, our shared basic goal in the Middle East will remain the same: a stable and prosperous Middle East where we both work to ease some of those deep-rooted tensions in the interests of the peoples of the region and of outsiders like ourselves.

Sept. 8—The Japanese government asked Tokyo to review a draft security agreement, which shall be submitted to the UN in 1981, the Iran-Japan Technical Cooperation (IJTC). The project was 85 percent complete.

Oct. 12—The Japanese government decided at a cabinet meeting that it would provide a total of 20 billion yen for the UN project from the Overseas Economic Cooperation Fund (OECF) and upgrade the project to a national project.

Oct. 13-14—Minister of International Trade and Industry (MITI) Etsuro Usui visited Iran, meeting Prime Minister Mehdi Bazargan and Oil Minister Ali Akbar Mojtahedi.

Nov. 2—An Iranian student group started the American Embassy in Tehran, holding those made hostages.

Nov. 12—The United States decided to suspend trading with Iran.

Nov. 18-19—Secretary of State Cyrus Vance met with Japanese Foreign Minister Sohei Ohira in Tokyo and criticized Japanese "interference" in the foreign crisis and its purchase of spot market oil, and also accused Japan of helping Iraq get around the attempt to freeze Iranian assets.

Nov. 24—The Japanese government decided to suspend a strategic commodity export to Iran, and to suspend participation in Afghanistan.

1980

Jan. 4—The Japanese government decided to suspend all categories of exports to Pakistan.

Mar. 12—The Japanese government decided to suspend participation in Afghanistan.

Mar. 15—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 3-11—Field visit to the Middle East by the Japanese Foreign Minister Sohei Ohira.

Apr. 10—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 11—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 12—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 13—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 14—The Japanese government decided to suspend all categories of exports to Afghanistan.

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Apr. 24—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 25—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 26—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 27—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 28—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 29—The Japanese government decided to suspend all categories of exports to Afghanistan.

Apr. 30—The Japanese government decided to suspend all categories of exports to Afghanistan.

Chronology

1979-1990

1979

Jan. 14—The Japanese government issued a verbal note to the new Mehdi Bazargan government in Iran that it desired continued friendly relations between the two countries.

Sep. 5—The Iranian government asked Tokyo to revive a joint venture begun under the shah to build a petrochemical plant in Iran, the Iran-Japan Petrochemical Company (IJPC); The project was 85 percent complete.

Oct. 12—The Japanese government decided at a cabinet meeting that it would provide a total of 20 billion for the IJPC project from the Overseas Economic Cooperation Fund (OECF) and upgrade the project to a national project.

Oct. 13-14—Minister of International Trade and Industry (MITI) Ezaki visited Iran, meeting Prime Minister Mehdi Bazargan and Oil Minister Ali Akbar Moïnfar.

Nov. 4—An Iranian student group seized the American embassy in Tehran, holding those inside hostage.

Nov. 12—The United States decided to boycott Iranian oil.

Dec. 10—U.S. Secretary of State Cyrus Vance met with Japanese Foreign Minister Sebuo Okita in Paris and criticized Japanese 'insensitivity' to the hostage crisis and its purchase of spot market oil, and also accused Japan of helping Iran get around the attempt to freeze Iranian assets.

Dec. 22—The Japanese cabinet decided to provide emergency assistance of ¥1 billion to Afghan refugees through the United Nations High Commissioner for Refugees.

Dec. 29—The Japanese Ministry of Foreign Affairs issued a statement condemning the Soviet military intervention in Afghanistan.

1980

Mar. 4—The Japanese government decided to provide emergency aid of ¥350 million for Afghan refugees in Pakistan.

Mar. 13—The Japanese Lower House adopted a resolution demanding a Soviet withdrawal from Afghanistan.

Mar. 19—The Japanese Upper House adopted a resolution demanding a Soviet withdrawal from Afghanistan.

Apr. 8—U.S. Ambassador to Japan Mike Mansfield asked Japan to break diplomatic ties with Iran if the American hostages were not released following the imposition of sanctions.

Apr. 11—The Japanese government decided to have its ambassador in Iran participate in the demarche by European Community ambassadors in Iran aimed at an early solution to the U.S. hostage problem in Tehran.

Apr. 15—The Japanese government decided to provide economic assistance of \$100 million for Turkey.

Apr. 21—The National Iranian Oil Company (NIOC) suspended oil shipments to Japan on grounds that Japanese companies rejected Iran's price increase.

Apr. 22—European Economic Community (EEC) and Japanese officials met and agreed not to support a boycott of Iranian oil despite their refusal to buy oil at the price set by the NIOC. Furthermore, they agreed to maintain diplomatic relations with Iran but to cut back embassy personnel in Tehran and to freeze Iranian visa applications.

May 6—Mitsui reported that it would resume construction on the IJPC petrochemical plant at Bandar Khomeini with twice the workforce.

May 23—The Japanese government decided at a cabinet meeting to revise the Trade Control Law to implement a total trade ban against Iran, excluding medicine and foodstuffs.

May 24—The Japanese Olympic Committee decided not to participate in the Moscow Olympic games.

Jun. 13—Japan agreed to a statement by the EEC that recognized the need for Palestinian rights and respect for the Palestine Liberation Organization (PLO) as a negotiations representative while simultaneously declaring the need to maintain Israel's security.

Sep. 22—The Iran-Iraq war began with Iraqi fighters striking the IJPC a minimum of six times, damaging the pipelines and the plant itself.

Nov. 10—Iran and Japan formally agreed to halt construction on the IJPC petrochemical complex.

Dec. 13—Former foreign minister Toshiro Kimura attended the Palestine National Council convention.

1981

Jan. 22-24—Iraqi First Deputy Prime Minister Taha Yasin Ramadan visited Japan. The third Japan-Iraq Joint Committee meeting was held in Japan.

Jan. 23—Japan ended the visa freeze on Iranians and lifted trade restrictions. Similarly, Japan decided to end its oil boycott by employing measures to ensure that they would not alienate Saudi Arabia, Jordan and other backers of Iraq in the Iran-Iraq war by increasing imports of Iranian oil.

Apr. 20—The Japanese government ended the suspension of exemption from visa requirements for Iranian nationals in response to the same measure by the Iranian government.

Jun. 9—The Japanese Ministry of Foreign Affairs issued a statement that Israel's bombardment of Iraq's Osiraq nuclear reactor could not be justified, expressing a hope for restraint by the parties concerned as well as prompt participation in the nuclear non-proliferation treaty by non-signatory nations.

Oct. 12-15—PLO Chairman Yasir Arafat visited Japan on an unofficial basis, meeting with Prime

Minister Zenko Suzuki and Foreign Minister Sunao Sonoda.

Dec. 15—Foreign Minister Yoshio Sakurauchi issued a statement denouncing the Israeli parliament's decision to annex the Golan Heights.

1982

Feb. 5—Japan voted against United Nations resolution ES-91 (which condemned Israel's decision to impose its laws and jurisdiction on the Golan Heights.)

Apr. 26—Foreign Minister Sakurauchi issued a statement welcoming Israel's return of the Sinai to Egypt.

Aug. 5—The Japanese government issued a statement condemning the Israeli invasion of Beirut.

Dec. 9-12—King Hussein of Jordan visited Japan.

Dec. 16—Japan voted against United Nations Resolution 37/123 (condemning Israel's policies in the occupied territories and calling for a withdrawal of Israeli forces from the areas).

1983

Apr. 5-9—President Hosni Mubarak of Egypt visited Japan.

Jul. 17-22—President Muhammad Zia ul-Haq of Pakistan visited Japan.

Aug. 8-13—Foreign Minister Shintaro Abe visited Iran, Turkey, and Iraq in a bid to mediate the Iran-Iraq conflict.

Nov. 24—Iraqi Trade Minister Hassan Ali visited Japan, meeting with Prime Minister Nakasone, who requested that Iraq not to attack the IJPC project. The Japan-Iraq Joint Committee meeting was held in Tokyo.

Nov. 30—A special envoy of Foreign Minister Abe visited Iraq and during his meeting with Foreign Minister Tariq Aziz requested a halt to Iraqi strikes against the IJPC project.

1984

Feb. 17—Japan closed its embassy in Lebanon.

Apr. 30—May 3—Prime Minister Nakasone visited Pakistan, meeting with President Zia ul-Haq, and visited an Afghan refugee camp in Peshwar. The first Japan-Pakistan Joint Committee meeting was held.

May 21—The Arab League mission headed by Kuwaiti Foreign Minister Sheikh Sabah al-Ahmad al-Jaber al-Sabah and Iraqi Foreign Minister Aziz visited Tokyo, requesting that Japan mediate the Iran-Iraq conflict during their meeting with Foreign Minister Abe.

Aug. 6-17—The Japan-Soviet Consultation meeting on the Middle East was held in Moscow.

1985

Jul. 16-17—Foreign Minister Abe visited Jordan and met with Jordanian officials and PLO Chair-

man Arafat. A Japan-Iraq-Jordanian foreign ministers' meeting was held.

Jul. 17-19—Japanese Foreign Minister Abe met with Syrian President Assad to discuss the Palestinian problem and methods to end the Iran-Iraq war.

Dec. 5—Japan's Foreign Minister Abe met with delegates from the Arab League, urging them to accept the right of Israel to exist while restating Japan's belief that Israeli troops should leave the occupied territories and that the Palestinians should be given the right of self-determination.

Dec. 13—The first Japanese-Tunisian Joint Committee meeting was held in Tunis.

Dec. 15—The Fifth Japan-Egypt Joint Committee meeting was held in Cairo.

Dec. 20-21—The Second Japan-Soviet consultation on the Middle East was held in Tokyo.

1986

Apr. 26-28—MITI Minister Mishio Watanabe visited Saudi Arabia. The Japan-Saudi Arabia Joint Commission meeting was held.

1987

Jun. 14-16—Foreign Minister Tadashi Kuranari visited Iran to meet with President Ali Khamenei, Foreign Minister Ali Akbar Velayati and Speaker of Parliament Ali Akbar Hashemi Rafsanjani.

Oct. 7—Japan gave \$10 million to provide a navigational system in the Gulf that would help protect maritime commerce.

1988

Jun. 22—Japanese Foreign Minister Sosuke Uno visited Syria, Jordan, Egypt, and Israel to urge them to support US Secretary of State George Shultz's Arab-Israeli peace plan and to begin new efforts to resolve the conflict.

Oct. 9—Japan publicly condemned Israel's use of plastic bullets to disperse rioters in the occupied territories.

1989

Jan. 13—Japan granted \$3.2 million in agricultural development aid to the Yemen Arab Republic.

Jan. 27—Japan provided \$100 million to help Pakistan alleviate food shortages caused by floods in September.

Feb. 3—Japan and Iraq reached an agreement on payment of debts to Japanese trading houses. Baghdad decided to divert part of its crude oil revenues from Japanese oil companies back to the trading houses.

Feb. 18—Egypt received \$13 million from Japan for construction of low-income housing.

Feb. 24—MITI decided to recycle \$39 million of Japanese private funds to seven Middle Eastern nations: Egypt, Iran, Iraq, Morocco, Pakistan, Tunisia, and Turkey.

Jul. 28—Japan provided \$15 million to finance a study of port facilities in Oman.

Oct. 4—PLO Chairman Arafat visited Japan in his official capacity.

Oct. 8—Mitsui and Company agreed to pay \$1 billion to Iran in compensation for withdrawing from IJPC.

Nov. 7—Israeli Foreign Minister Moshe Arens visited Japan.

Nov. 10—The Japanese Overseas Economic Cooperation Fund (OECF) allocated a \$59 million loan to Egypt in order to improve its water supply system.

Dec. 1—Japan signed a \$70 million loan to the Banque Exterieur d'Algerie.

Dec. 15—Japan's Nippon Mining Company signed a contract to import about 10,000 barrels a day of Iraqi light crude oil in 1990.

Dec. 16—The Export-Import Bank of Japan signed four credit agreements providing untied loans to local banks in Algeria.

Dec. 18—Japan provided a debt relief grant of \$2 million to the Yemen Arab Republic.

1990

Jan. 12—Japan lent \$225 million to Turkey for an agriculture project.

Jan. 19—Japan's Nippon Steel Company was awarded a \$300 million contract to repair the Salman oil platform in Iran.

Jan. 31—Saudi Arabian Oil Minister Hisham Nazir urged Japanese refiners to increase direct crude purchases during his visit to Tokyo.

Mar. 2—The Japanese government offered to lend \$800 million to Egypt on concessionary terms to finance expansion of the Suez Canal.

Mar. 20—Japan signed a \$150 million loan agreement with Pakistan for private-sector energy projects.

Apr. 1—The Nippon Oil Company and Cosmo Oil Company (both of Japan) signed direct term contracts with Saudi Arabia for 50,000 barrels of oil a day.

Apr. 3—Iraqi Oil Minister Issam Abd al-Rahim al-Jalabi visited Tokyo in order to raise the volume of Iraqi crude imported by Japan and to seek funding for oil field development.

Apr. 3—A delegation from the Japan Federation of Economic Organizations (Keidanren) visited Tehran and met with Iranian Oil Minister Ghulam Reza Aqazadeh.

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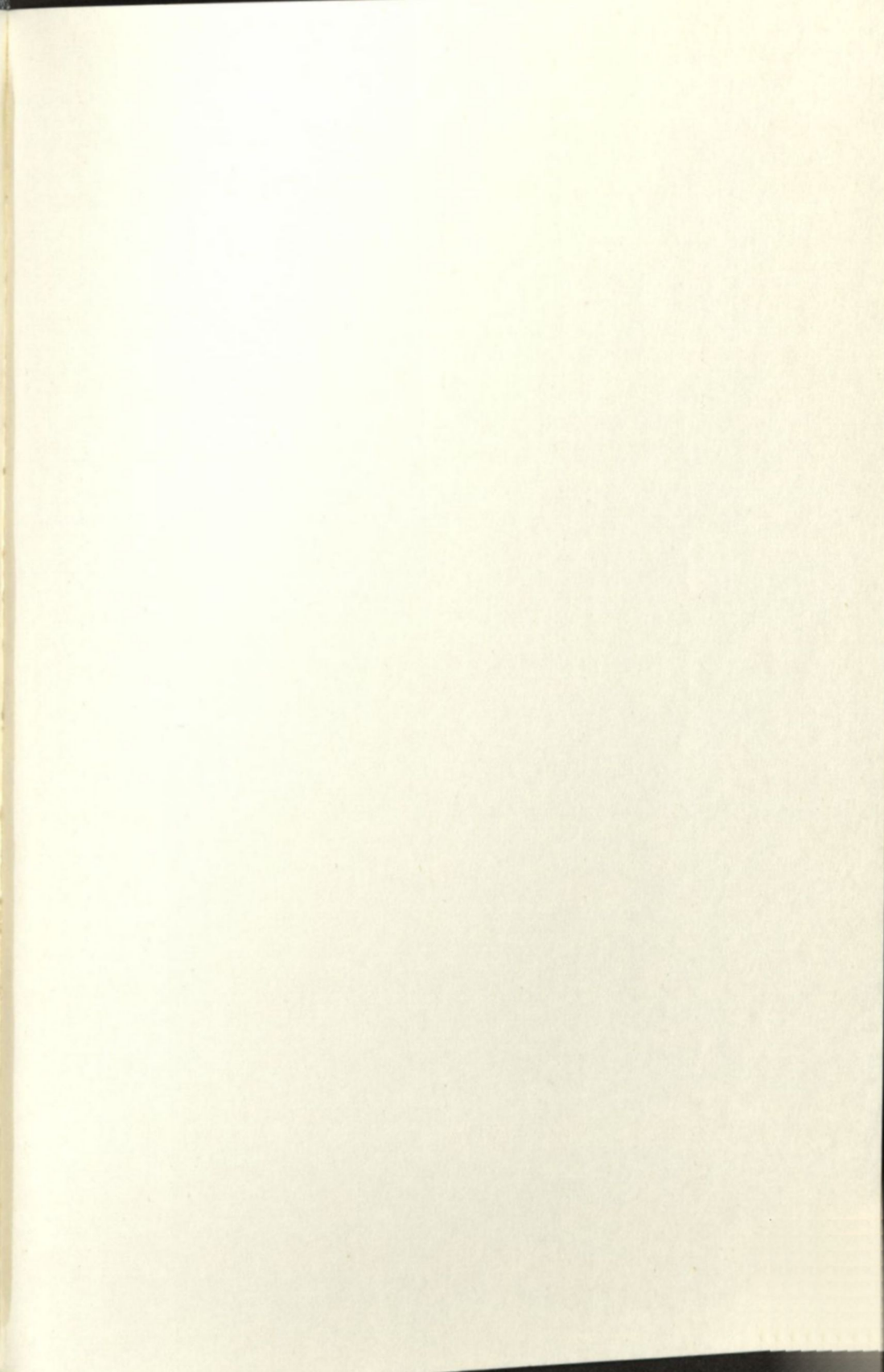
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