JAPAN IN THE CONTEMPORARY MIDDLE EAST

Edited by
KAORU SUGIHARA
and J. A. ALLAN

ROUTLEDGE

Japan in the contemporary Middle East

Japan and the Contemporary Middle East deals with Japan's burgeoning relationship with the crucial Middle Eastern region throughout the twentieth century, and focuses in particular on the rapid transformation of the relationship since 1973. It provides access in English to current economic and political analysis by some of the most important Japanese specialists on the Middle East.

Japan is dependent on Middle Eastern oil, and its involvement in joint ventures in the Middle East as well as the changing nature of Japan's domestic energy consumption are examined here. Japan's role as a major provider of economic assistance is also reviewed and its future potential role in this area is emphasised.

The book provides a useful analysis for specialists in business, the media and government and the academic community and will provide students of Japanese and Middle Eastern affairs with an introductory perspective on one of Japan's important overseas preoccupations.

J.A.Allan is Professor of Geography at the School of Oriental and Asian Studies, University of London. He specialises in the evaluation and monitoring of the renewable resources of the Middle East and northern Africa and has written widely on these topics. He was Vice-President of both the British Society for Middle Eastern Studies and the Remote Sensing Society between 1989–91. **Kaoru Sugihara** is Senior Lecturer in the Economic History of Japan at the School of Oriental and Asian Studies, University of London. He has written on various aspects of modern Asian international economic history, his most recent publication being *An Economic History of Modern Japan* (Macmillan 1992).

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Preface and acknowledgements

This book explores the current state of Japan's role in the contemporary Middle East, and discusses its implications in the future. Japan plays a pivotal role as one of the largest consumers of Middle Eastern oil. While this means a massive annual receipt of Japanese money for Middle Eastern oil producers, Middle Eastern oil remains the most important energy source of the Japanese economy. At the same time, Japan provides the Middle East with manufactured goods, capital and technology for their industrialisation, and offers economic assistance to the less-advanced countries of the region. Both of these factors are likely to strengthen Japan's future role in the Middle East. During the 1990 Gulf Crisis, Japan's relatively passive response attracted some international concern, and the regional political stability of the Middle East became a serious political issue for Japan for the first time. We are likely to be reminded of the importance of the economic and political relations between Japan and the Middle East in the future. Yet our general knowledge on the subject matter is extremely limited, nor do we have any established academic framework with which to work.

In this volume we have attempted to cover major features of these relations with an interdisciplinary perspective. The themes included are the importance of the Middle Eastern oil trade with Japan for the world economy, the importance of a Japanese economic presence for the Middle East, historical trade relations between Japan and the Middle East, the changes in the structure of the oil trade, the fate of Japan's joint venture project in Iran, Japan's strategy for economic assistance, Japan's diplomatic relations with the Middle East and Japan's political relations with Israel. Through co-operation between the staff of the Centre for Near and Middle Eastern Studies and the staff of the Japan Research Centre at the School of Oriental and African Studies, University of London, we were able to identify leading Japanese experts on this subject matter and make their knowledge accessible to the English-language reader.

The five papers (Chapters 3 to 6) were originally read at the conference 'The Japanese Approach to the Contemporary Middle East' held at the

School of Oriental and African Studies on 4 to 5 October 1990. These papers were subsequently revised or edited, and three papers were added. The academic and administrative staff at the two centres were heavily involved at various stages in the organisation of this project, especially Jill McGlasson and Clare Doran.Mr Tetsuo Hamauzu of the Institute of Developing Economies, Tokyo, who was at SOAS from 1990 to 1992, and Mr Makoto Mizutani, Counsellor at the Japanese Embassy, London, were also instrumental in the preparations for the conference. Financial assistance was extended by the Research and Publications Committee of the School of Oriental and African Studies and the Daiwa Anglo-Japanese Foundation. The editors wish to acknowledge their support. The technical editing of the material was completed to a familiar high standard in the SOAS Centre of Near and Middle Eastern Studies by the series editor, Diana Gur.

Kaoru Sugihara and J.A.Allan

Editorial conventions

In this volume Japanese names are presented in western style, that is, first name followed by surname.

In all cases $ refers to US dollars. The exchange rate between US dollars and Japanese yen for the year 1991 was 135 yen per dollar. The rates for earlier years are available in Table 4.5 of Chapter 4.

Chapter 1
Japan, the Middle East and the world economy
A note on the oil triangle[1]

Kaoru Sugihara

INTRODUCTION

All too often Japanese economic growth in the post-war period has been discussed in isolation from the world economy. Despite the common notion that Japan is a resource-poor nation dependent on foreign trade, the discussion on the reasons for the strength of the Japanese economy has concentrated on the domestic factors such as the saving ratio, the quality of labour, management and industrial policy.[2] Up to a point, this is understandable. Japanese economists and policy-makers have been inclined to focus on, and see explanations in, indigenous factors over which they had some control. Western observers and commentators on the other hand, have concentrated on what they perceive to be the closed nature of the Japanese domestic market and have sought explanations for its strength in the difficulties which non-Japanese manufacturers experience in gaining access to it. Further, when Japan's position in the world has been discussed, it has been either in relation to western countries or in the context of Asian regional development. The discussion has centred round either the international political and military factors obtaining in East Asia, or Japan's bilateral links with the United States, European Community (EC) or other Asian countries.[3]

Yet Japanese economic growth has been an integral part of world economic growth since the 1950s, not least because of the successful diversification of her resource base world-wide, including with respect to Middle Eastern oil. Between late 1973 and 1985 a major intra-non-western trade imbalance emerged between Japan and the Middle East, as a result of the sudden rise of the oil price. Unlike developing countries, Japan managed to continue to buy a large amount of oil from the Middle East at a very high price for about twelve years. The main reason for this was that she was able to earn a similar amount of trade surplus by exporting manufactured goods such as automobiles, consumer electronics, heavy machinery and computers to the rest of the world, primarily the United

States and the EC (hereafter referred to as advanced western economies). Although the relations between the Middle East and advanced western economies were complex, it seems reasonable to assume that the majority of the oil money which the Middle East obtained from Japan was invested in the Euro-dollar market (and to a lesser degree in the United States), thus offsetting the two major bilateral trade imbalances created by the Japanese pattern of trade.

It may be recalled that in the first half of the nineteenth century Britain created an 'opium triangle' to settle her trade deficit with China by means of a surplus in trade with India predominantly in opium (see Figure 1.1).4 Britain wanted to import Chinese silk and tea, but there was little demand for British manufactured goods in China. By exporting Indian opium to China a triangular settlement pattern was created, and a high volume of trade among the three countries continued for a long time. A similar pattern could be observed with reference to Japan's huge annual deficit with the Middle East between 1973 and 1985. Like the early years of the opium trade, the emergence of this non-western trade attracted little attention in western countries. Yet it was through this triangular settlement that a shift to bloc economies such as the ones seen in inter-war years had been avoided. Just as the opium triangle enabled China to export silk and tea to Britain, the links through the Middle East enabled Japan to export her manufactured goods to advanced western economies. We may call this an oil triangle (see Figure 1.2).

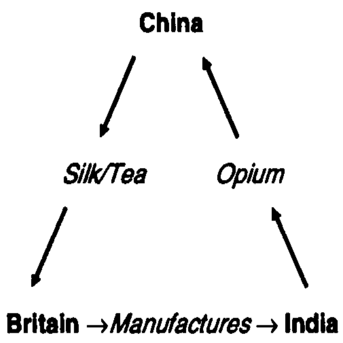

Figure 1.1 The opium triangle

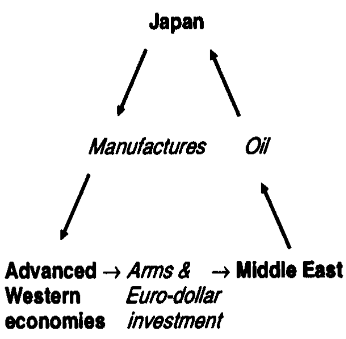

Figure 1.2 The oil triangle

The purpose of this chapter is to outline the emergence, the development and the recent loosening of this oil triangle. The next section briefly describes the impact of the Middle Eastern oil supply on Japanese economic growth in the 1950s and 1960s. The third section traces the development of the oil triangle between 1973 and 1985. The last section sketches the loosening of the triangle after 1986, and discusses its implications.

MIDDLE EASTERN OIL AND JAPAN'S HIGH-SPEED GROWTH

From the start of Japan's industrialisation in the late nineteenth century up to the 1940s the Japanese economy obtained most of the basic commodities (food and raw materials including energy) within Asia. Coal, iron ore, raw cotton, sugar and rice were imported mostly from other Asian countries, as well as being domestically produced. This pattern arose partly because of the lower transportation costs within Asia and partly because the quality of Asian commodities suited Japanese consumer taste, and also because Japan wanted to secure a degree of political and economic independence from the west. She was able to finance the purchase through the export of manufactured goods to these Asian countries. Oil was sought in the Dutch East Indies, and the denial of oil supply in 1941 was an immediate cause of the outbreak of World War II in the Pacific. The foreign currency Japan needed to import advanced machinery from the west was earned during this period through the export of raw silk.

After the defeat, the Japanese Government was determined to pursue a programme of full economic modernisation, primarily through the expansion of the domestic market. During the second half of the 1940s major political changes took place in Asia. Mainland China, India and some Southeast Asian countries either entirely or largely ceased to trade internationally, as a result of the establishment of a communist regime or as a consequence of the policies of a newly-independent government. It was still possible for Japan to export some manufactured goods to a small number of open economies such as those of South Korea, Taiwan and Hong Kong, but she had no prospect of obtaining the raw materials she needed to build a competitive industrial structure in other Asian countries.[5]

The main source of energy for the Japanese economy at the time was coal, and the coal and steel industries were prioritised as the leading sectors for national economic rehabilitation. But it soon became clear that the domestic coal industry would not be able to cope with the growing demand competitively. Following the pre-war pattern, most oil firms in Japan heavily depended on the oil majors' capital and technology in the immediate post-war period. The shift to oil began around 1954, but the government continued to restrict oil consumption to protect the coal industry. In the early 1960s the United States urged Japan to remove import restrictions, and the Ministry of International Trade and Industry (MITI) formulated a new policy for the Japanese oil industry. The 1962 Oil Industry Law set the institutional framework. It denied the notion of free trade on the grounds that the domestic oil industry was overly competitive and financially vulnerable, and was unfit to ensure a cheap and steady oil supply. In view of the vital importance of oil as the main energy source and the heavy dependence on imports, it was argued that a portion of the domestic oil market should be put under the guidance of the state. The majority of oil firms, including those with foreign capital, agreed.

There were two main reasons why this policy received general support. One was the dominance of the majors in the international oil market. This dominance was so overwhelming that the minority argument which emphasised the need for Japan's exploration of oil fields overseas with her own initiative and the construction of tankers, seeking an independent steady oil supply, lost favour. Majors were on the whole happy to settle for joint ventures, leaving managerial control in Japanese hands. Despite the development of domestic oil firms, eighteen out of thirty-four firms (including those engaged in trade, refining or both) were joint ventures even in 1984. Hence most Japanese oil firms did not feel competent enough to go for open competition. Some joint venture firms also favoured the control of cut-throat competition. It was only in 1987 that there was a policy shift to deregulation.

The other reason for state intervention in the oil industry was the strong and growing domestic demand for oil itself. The largest demand in the 1950s came from the steel industry, but after 1960 the power stations became the largest consumer. Their consumption increased with the growth of electricity consumption. The growth of demand in the transport sector was also strong, as well as from the petrochemical industry.[6] In 1953 oil accounted for 23 per cent of Japan's total energy consumption. Its share rose to 60 per cent in 1963 and to 80 per cent in 1973.[7] Thus during the high-speed growth period (1955 to 1973) there was a general consensus on the vital importance of exercising some control over Japan's oil supplies and the government had strong support for its regulatory policy.

Japan's domestic transformation into an oil-based economy during this period involved fundamental structural changes in the economy. Pre-war Japanese industrialisation was essentially based on coal, textiles and machinery and much of this activity was located in rural areas. The oil supply enabled Japan to expand her relatively small inorganic material-based sectors into a leading sector of the economy. Major refineries and petrochemical complexes were established along the Pacific coast, often using the sites of former arsenals. Textile firms developed man-made fibre businesses. The steel industry invested heavily in large plants with the latest equipment, shifting its resource base from coal to oil. Machinery industry developed new major branches for the manufacture of transport machinery (tankers, trucks, passenger cars and railway carriages), electrical machinery (both industrial machinery and consumer electrics), heavy machinery (particularly for construction industries) and precision machinery for industrial use. Shipbuilding and shipping industries were encouraged to build tankers and secure a level of tonnage to meet Japan's needs as well as to earn foreign exchange. Large ports and related facilities were built or reno-vated near major cities to meet the demand from the growth of trade.

Although many of these new industries were related to the development of Japan's infrastructure and were capital intensive, the bulk of machinery, chemical and textile industries remained labour intensive and it was this latter category that eventually became internationally competitive. The Japanese automobile industry, for example, was identified as a strategically-important industry in the 1950s and MITI sought economies of scale as well as each firm's specialisation through mergers and tie-ups, to catch up with a huge technological gap with US manufacturers. But the manufacturers did not always follow the government guidance, and pursued their own ambitions, creating keen domestic competition. Through the rapid adaptation of foreign technology, an efficient mass production system and a well-organised system of sub-contracting emerged.[8]

A massive rural-urban migration took place in the 1950s and 1960s. The proportion of city dwellers in the total population rose from 38 per cent in 1950 to 76 per cent in 1975. In addition to the demand for industrial workers, a huge demand for labour was created by the process of urbanisation. Wages rose, because labour supply from the countryside was exhausted during the 1960s, but the standard of living did not necessarily rise as fast, as the urban infrastructure was poor and living and environmental conditions were appalling. In the second half of the 1960s, the wage gap between the white-collar and the blue-collar employees narrowed. The very high rate of growth based on constant and rapid innovation made it possible to cope with a very high rate of wage increases.

The proportion of oil in total Japanese imports gradually rose in the 1950s and 1960s, though it never exceeded 16 per cent. This stimulated Japanese policy-makers to create a competitive industrial export capacity to be able to earn a steady flow of foreign exchange from the countries with a capacity to purchase Japanese goods. Throughout the period of high-speed growth, however, Japan periodically experienced balance of payments crises. And, although the ratio of exports to gross national product (GNP) remained relatively low, the commitment to an oil-based economy affected the entire thinking on post-war economic policy.

THE DEVELOPMENT OF THE OIL TRIANGLE BETWEEN 1973 AND 1985

It was the development of heavy and chemical industries together with a broad range of machinery industries which formed the basis for Japan's response to the 1973 oil crisis. Table 1.1 shows the importance of oil in total Japanese imports in the period from 1973 to 1990. Almost all the increases came from the price increase. The Japanese economy responded to this in two ways. First, there was a consorted effort to diversify energy sources. The most important was an increased use of nuclear power stations. The exploration of LNG (liquefied natural gas) also played a part. Further, the more efficient use of energy with the application of high technology and new industrial materials took place. Between 1975 and 1988 the oil intensity, measured by the ratio of oil consumption to gross domestic product (GDP), fell by about 57 per cent.[9]

Thus a significant shift from the oil-using to the energy-saving technology in manufacturing industry occurred and a new industrial structure was built in the 1970s and 1980s. The relative importance of steel, chemical, cement and aluminium industries declined. Within the machinery sector, the relative weights of transport machinery and heavy machinery sectors declined, while those of electric (mostly electronic) machinery and precision machinery sectors expanded. The automobile industry shifted its material base to the harder and thinner steel as well as to plastics and other 'new materials', thus making cars lighter and petrol saving, while the consumer electronics industry developed smaller and lighter products, also reducing the dependence on heavy materials. The development of the machine-tool industry enabled the production process in these sectors to be less energy intensive as well.

At the core of this new economic structure was the development of electronics industries. The growth of computer, semi-conductor, telecommunications equipment and general electronics parts sectors interacted with one another, creating a sophisticated communications net-work to which many manufacturing industries could link their products and services. The dynamic growth of the service sector, not just in banking and distribution, but in the new field of software industry as well as in medicine, education and management consultancy, was also partly dependent on this new environment. Although the electronics industry was neither large in size nor necessarily internationally competitive, it provided other industries with both the vital technology and an informational infrastructure in this way.

The application of the new products and knowledge relating to the electronics industry to other manufactured goods played a significant part in enhancing their international competitiveness. Exports of automobile and consumer electronics to the United States and the rest of the world grew rapidly, despite the appreciation of the yen. The strong yen affected export industries, but also lowered the price of oil in yen terms. Equally important in this context was the successful survival of Japanese oil-using industries in this period. The steel and shipbuilding industries attempted a reduction of energy consumption as well as a diversification into new fields with their own initiatives. Here the government support was largely confined to the reduction of production capacities.[10] Most of the oil-using

Table 1.1 The importance of oil in Japanese imports (billion yen)

Year	*Oil imports*	*Total imports*	*Percentage*
1973	1,633	10,404	15.7
1974	5,504	18,176	30.3
1975	5,832	17,170	34.0
1976	6,289	19,229	32.7
1977	6,367	19,132	33.3
1978	4,980	16,728	29.8
1979	7,378	24,245	30.4
1980	12,011	31,995	37.5
1981	11,688	31,464	37.1
1982	11,443	32,656	35.0
1983	9,506	30,015	31.7
1984	9,320	32,321	28.8
1985	8,303	31,085	26.7
1986	3,431	21,551	15.9
1987	3,015	21,737	13.9
1988	2,412	24,006	10.0
1989	2,962	28,979	10.2
1990	4,470	33,855	13.2

Source: Monthly Statistics of Japan (Tokyo, Statistics Bureau , Management and Co-ordination Agency) and *Japan Exports and Imports, Commodity by Country* (Ministry of Rnance).

industries survived tough competition from other Asian countries by achieving the productivity increase partly through the introduction of high technology to their production process. While this helped keep down the level of Japanese imports of manufactured goods, it also meant the need to sustain a large amount of oil imports.

This brings us to the second and equally important Japanese response, which was the development of an oil triangle. By the late 1970s Japan had a trade surplus with almost all her main trade partners except for the oil-producing countries. This had a significant impact on the pattern of global trade.

The emergence of the Asian newly-industrialising countries (NICs) led to the revitalisation of the pre-war heritage of Japanese economic ties with other Asian countries, and Japan 's trade with them comprises about 40 per cent. For the sake of simplicity, however, let us ignore Japan's economic relations with the Asian NICs and other developing countries for the moment and concentrate on the multilateral trade settlement patterns among Japan, the Middle East and the advanced western economies.

Table 1.2 Japan's regional trade balances (billion yen)

	*With advanced western countries**	*With the Middle East*
1973	451	–864
1974	715	–3,558
1975	579	–3,090
1976	2,576	–3,408
1977	2,834	–3,153
1978	2,925	–2,144
1979	1,916	–4,114
1980	3,022	–6,879
1981	5,002	–5,436
1982	5,012	–5,128
1983	6,602	–3,944
1984	10,091	–4,470
1985	11,942	–4,277
1986	11,576	–1,556
1987	10,423	–1,609
1988	8,777	–1,300
1989	8,640	–1,997
1990	7,890	–3,204

Source and note: Same as Table 1.1. *refers to USA, Canada and EC (Western Europe for 1973–6).

Between 1974 and 1985 the Japanese trade deficit with the Middle East amounted to 50,000 billion yen or an annual average of 4,133 billion yen ($17.3 billion at the 1985 exchange rate of 238.54 yen per dollar), while her trade surplus with the main western economies reached 53,000 billion yen or an annual average of 4,435 billion yen ($18.6 billion) (see Table 1.2). Each of these bilateral trade imbalances was large enough to create concern. Both had to be settled in some way for the smooth running of global trade. The simplest way was to create a mechanism for the transfer of the Middle Eastern surplus to the advanced western economies.

This was achieved in several ways. First, the Arab money flowed into the EC and the United States in large quantities. A source of a large proportion of this flow was the money the Japanese paid for the purchase of oil. Between the first and the second oil crises a large amount of this Arab money flowed out to the Third World, which resulted in the accumulation of debts there. Some of the credit to the developing countries was incurred in the purchase of Japanese manufactured goods, thus completing a multilateral settlement pattern. Iran purchased manufactured goods from the United States and West Germany in the 1970s. The rest of the Arab money stayed in the western capital markets. In the 1980s Saudi Arabia began to proceed with industrialisation and purchased manufactured goods as well as weapons and military-related goods, mainly from the west. The eight-year war between Iran and Iraq (1980–8) required these two countries increase the purchase of weapons and military-related goods from the west, too. A small proportion of the Arab money was invested in manufacturing and service industries within the EC, particularly by the smaller countries such as Kuwait. In this way the triangle became a little more explicit in the 1980s. Japan preferred to settle her imbalances multilaterally, partly because she was not a major player in the arms-related field, and partly because some of the goods needed for the industrialisation of the Middle East were better supplied by other countries such as some European countries and South Korea. Japan was likely to have trade surplus with these countries, and therefore multilateral settlement patterns could be established through them.

Thus, as long as the Arab money kept flowing into the western capital markets, the settlement pattern was reasonably secure. The more rapid deregulation and opening up of the Tokyo Stock Exchange would have absorbed some of the Arab money to Japan directly to a degree. But that option would have required the creation of an equally, if not more complicated, further transfer mechanism, unless the Middle East would shift their orders from the advanced western economies to Japan.

The existence of the oil triangle points up the importance of analysing bilateral structural trade issues in a global context. On the one hand, Japanese firms were able to respond to the higher oil prices by developing energy-saving technologies which would eventually benefit the world economy as a whole. This, however, did not mean that the Japanese economy absorbed the effects of a sudden price rise alone. It passed its deficit over to advanced western economies and through them to the rest of the world. It was not only Japan but the world economy that benefited from this transfer.

At the same time the oil triangle makes clear the structural linkage between Japan and the western exports of arms to the Middle East. Japan has a 'peace' clause in its constitution which prohibits sending military forces abroad and renounces the sovereign right to resort to war as a means of settling international disputes. Throughout the post-war period the export of arms in an explicit manner has been regarded unacceptable. Yet she was one of the main providers of the Arab purchasing power for arms. She also put presssure on advanced western economies to export arms to the Middle East by developing a trade surplus with them, and by competing with them strongly in many high-technology industries. Ironically, the Japanese constitution itself was a major factor behind this pressure, in the sense that it directed Japanese manufacturers to specialise in non-military industries. Although essentially unintended, Japan was a major beneficiary of the western exports of arms to the Middle East, as it neatly completed the oil triangle.

THE LOOSENING OF THE OIL TRIANGLE AFTER 1986

From 1986 the Japanese imports of Middle Eastern oil significantly declined. So did the flow of Japanese money from the Middle East to advanced western economies. The Japanese trade surplus with advanced western economies also declined slightly, although not as much as had been desired (see Table 1.2). The implications of this loosening of the oil triangle were manifold.

There have been several attempts to rescue the damage of this change. First, Japanese economic aid increased which mitigated the drastic reduction of the flow of Japanese money to the Middle East to some extent. Japan's economic aid to Egypt and Turkey has been significant for some time and other non-oil-producing Arab countries were eager to compensate for the decline of the oil-producer's support by directly obtaining Japanese funds. Some of the Japanese loans which were untied in terms of the purchase of Japanese products encouraged the increase of the exports of non-military manufactured goods to the Middle East. From the point of view of the industrialisation of the Middle East, this may have been of some importance.

Second, there are signs of Japan's more proactive economic involvement in the Middle East. Japan's stake at securing oil has been expressed in Mitsui's attempt to go for a joint venture in Iran and Mitsubishi's petrochemical plant in Saudi Arabia. In Chapter 5 Takahashi eloquently describes how the Iran-Japan Petrochemicals (IJPC) project was perceived, stumbled under the political upheavals, abandoned and yet yielded some interesting relationships between Japan and Iran as a result. The more successful joint venture in Saudi was helped by the recovery of the international petrochemicals market. Some attempts have been made to train Saudi staff in the UK, United States and Japan. In the long run the main Japanese contributions to economic development in the Middle East may be through technological and managerial transfers rather than the purchase of oil and the export of capital and manufactured goods.

In the 1980s Japanese trading companies became much more active in the international oil market and were better able to control prices and the volume of trade.[11] Japanese banks, security houses and other financial institutions began to play a role in the Middle East, though this is a relatively recent phenomenon.

Third, another Japanese short-term response was a rapid increase of the export of Japanese capital, mostly to the United States and to EC countries in the form of financial assets. Instead of going through the Middle East, a bilateral settlement was attempted. This eased the flow of Arab money into advanced western economies and was one factor enabling the west to be firmer with the Middle Eastern purchase of arms. However, the bilateral *trade* imbalance has so far been largely unsolved, as both the Japanese and western economies need structural adjustments to respond to the new economic environment.

Fourth, it is unlikely that Japan will play a proactive role in international affairs to strengthen her economic ties with the Middle East in the near future. Given the consequences of World War II, the per-sistence of a strong popular support for the peace constitution is understandable. But post-war Japanese foreign policy remained passive and heavily dependent on United States foreign policy. Japan's own foreign policy has been affected by the outcome of World War II, and a clear expression that Japan has a sense of responsibility for the consequences of the war in Asia has not been established, despite some genuine attempts to do so. Hence the other Asian countries were reluctant to accept Japan's greater international (particularly military) roles. Equally relevant is the continued uncertainty of the future of Asian regional political stability. Given the gradual United States withdrawal from the region, Japan needs to put a priority on clearing this Asian hurdle first.[12]

This is not to suggest that there has been an absence of Japanese diplomatic links with the Middle East. In Chapter 8 Chiba conveys some of the sentiment shared by informed Middle East specialists in Japanese diplomatic circles in the early years. In Chapters 6 and 7 Mizutani and Fuwa describe more recent efforts to match the growth of economic ties through official development assistance (ODA). But few would deny the desirability of carrying a larger and more powerful group of experts capable of coping with a growing number of international issues. Japan's attitudes towards Israel, hence the Arab-Israel conflict, had to be formulated under the intensified mood of trade conflict between Japan and the United States (see Chapter 9). The Japanese political response to the Gulf Crisis of the early 1990s did not show any drastic change in her ability to formulate her own stance.

All of these recent trends appear to point to the gradual disappearance of the oil triangle or the difficulty of sustaining it. But the case for retaining an oil triangle of a smaller size remains a powerful one. The collapse of the oil price in 1986 reduced the Japanese import bill, but the actual imports of oil by volume has increased since then. After 1989 Japan's trade deficit with the Middle East began to increase again. Some of the oil-using sectors regained their relative position. From this perspective, the development of the energy-saving technology and the various shock-absorbing arrangements the government implemented, such as the storage of oil and the diversification of supply sources, may be seen as an attempt to enhance

Japan's shock-absorbing capacity rather than an effort to avoid her dependence on the Middle East entirely.

It is likely that oil supply from the Middle East will remain important for Japan in the foreseeable future. In contrast to the 1973 crisis, Japanese economists have been remarkably optimistic about the effects of the 1990 Gulf Crisis on the domestic economy, not because oil became unimportant but because they were far more confident about Japan's capacity as a shock absorber. So far they have been right.

This role as the pivotal consumer is likely to continue for the foreseeable future. Given the presence of many factors which will inhibit her from playing a greater role in the political and military arena, this is likely to remain as Japan's main contribution to the international management of Middle Eastern affairs. It is important to recognise that it will be in the interest of global economic management for Japan to sustain this role.

Chapter 2
Japan and the Middle East
Trade, international assistance and international relations

J.A.Allan

INTRODUCTION

Japan's relationship with the Middle East is a multi-billion dollar business and the role of Japanese industrial and commercial interests in the region will increase in volume and significance according to the strength of the economies of the Middle Eastern oil producers. Japan is an economic power of global significance and has particularly strong and complementary trading and other interests with Middle Eastern countries. These interests include banking and investment, as well as oil, and an increasing concern with economic assistance in a number of the deficit countries of the region. The Middle East is the region with the majority of the world's crude oil resources and it will continue to be a major supplier of energy for the world's industrial powers, including to the energy deficient Japan, until the middle of the twenty-first century. In the Middle East lie the world's pivotal energy resources and this fact has been emphatically confirmed during the Gulf Crisis from 2 August 1990 when the prices for crude-oil and petroleum products responded instantly to the fall in supply. It has been especially demonstrated in the aftermath of the Gulf War of March, when oil prices fell rapidly as Saudi Arabia confirmed its ability to determine the world price of oil by producing towards its capacity during the rest of 1991. Prices fell to their pre-crisis level as Saudi Arabia filled the gap left by the absent production of Kuwait and Iraq. Japan was well placed to build on its already strong relations with the major player and beneficiary of the increase in sales, the Kingdom of Saudi Arabia.

The compelling importance of the Middle East to Japan came with Japan's dependence on imported oil. The Middle East has been the major element in the global oil trade for decades and most of the world's future crude-oil reserves are located in the region. Most important in the short term is the fact that the most accessible, and potentially the cheapest, oil is located there. As the world's largest single national importer of oil, Japan became the region's most attentive customer. By the time of the oil crisis of

1973 the strength of the Japanese economy was such that Japan was the pivotal customer in being both the most dependent consumer and at the same time the one most able to pay premium prices for its supplies. In both the 1973 oil crisis and in the false crisis of 1979–80 Japan's anxiety concerning its vulnerability to constraints on energy supplies were expressed in rapid increases in oil prices. Such was the robustness of the Japanese banking and industrial base that Japan emerged from both crises relatively stronger than any of its competitors. It economised more effectively than its industrial competitors in its use of energy, diversified its energy base and pursued policies abroad which enhanced the security of its future oil supplies.

Japan's relations with the Middle East began well before oil was so significant in its trade balance. In the 1920s and 1930s Japan became a major supplier of textiles to the region, challenging the European manufacturers. After World War II Japan's energy supplies came through the international market controlled by the 'major' international oil companies based in the United States and Europe. After the war these companies provided cheap and secure oil to Japan and the rest of the world, but the weaknesses of the system were exposed in 1973 although they had been signalled in 1967 with the disruptions following the closure of the Suez Canal. However, the geography of Japan meant that the impact of the Suez closure only affected it indirectly through the rise in prices. The closure did not affect its access to crude-oil supplies.

THE 1973 OIL CRISIS AND ITS CONSEQUENCES FOR THE RELATIONSHIP OF JAPAN WITH THE REGION

As a consequence of the 1973 crisis, Japan's major international companies and its Ministry of International Trade and Industry (MITI) turned their attention to securing their energy supplies. In the crisis of 1973, and in the years thereafter, many measures were taken to ameliorate Japan's exposure to further oil shocks, including involvement in exploration and other upstream activities. There were attempts, mainly unsuccessful, to locate and jointly develop crude-oil resources as well as more successful attempts to invest in petrochemical plants such as that by Mitsubishi in Saudi Arabia. The parable of the joint Saudi-Mitsubishi venture is one of an apparently untimely commitment to investment as the petrochemicals industry at the time was suffering world-wide chronic over-capacity. Happily, by the time the plant came on stream in the late 1980s other suppliers had closed down or had had to withdraw through being uncompetitive. An apparently very soundly based negative economic prognosis by critics of the venture was confounded by events. The Japanese were not everywhere so successful and the all too prevalent unstable politics of the region, which had deterred many investors from embarking on joint ventures, terminated the Mitsui petrochemicals joint venture in Iran after the Iranian Revolution of 1978. A revolutionary Iran, further destabilised economically by war with Iraq, proved to be a development nightmare from which Mitsui and MITI escaped very expensively indeed.

JAPAN'S GROWING SIGNIFICANCE IN THE MIDDLE EAST IN THE 1980s

By the end of the 1980s the changes in the world order in terms of global military and economic power began to expose much more clearly than before the extent of Japan's economic strength. This economic strength was all the more evident as it contrasted strongly with the apparent economic vulnerability of the United States which was increasingly indebted. The US role as military superpower by then was no longer significantly tested on the world stage as a result of Soviet domestic preoccupations. The Soviet economy was in decline and its unity in question. In the Middle East, where the two superpowers had vied for decades to exert influence, they no longer confronted each other by 1990. The Soviet Union's economic weakness had forced it to pursue an economical Middle Eastern regional policy which meant that it cultivated a small number of significant allies and only one of them, Syria, was poor and somewhat costly. The others, Iraq and Libya, were oil rich and could help the Soviet Union with its hard currency problems by buying arms. The most obvious indicator of the Soviet Union's economic incompetence was its withdrawal from its costly relationship with Egypt. In 1973 the USSR left the United States to shoulder the Egyptian deficits which by the end of the 1980s rose to over US $3 billion per year—about the same sum as that given by the United States to Israel each year.

With the Soviet Union unable to finance clients in the region, and the United States fast becoming much less capable of financing its self-imposed obligations in the Middle East, the 1990s will be a decade when new arrangements will have to be made to finance the deficit economies. The predicament has been amplified by the Gulf Crisis and War of 1990–1 when the United States decided that it must secure the political stability of the old order in the Gulf by meeting its obligations to Saudi Arabia, its third major client in the region and the third pillar of its regional policy. This policy required the United States to be an ally and protector of three major clients, and in two cases the determining patron of the politically irreconcilable—Israel, Egypt and Saudi Arabia.

The importance, or rather the potential importance, of Japan in this political and economic regional complex has become increasingly clear. While it used to be the case that the United States was the only country capable of taking on the financial burden of maintaining the non-viable economies of Israel and Egypt, it is clear that it can no longer sustain the burden in the long run. In the immediate aftermath of the 1991 Gulf War the economic vulnerability of the United States was concealed by a global preoccupation with wrestling with the problem of shifting the political posture of the Iraqi President and the much more prominent diplomacy associated with delivering a Middle Eastern Peace Conference and a settlement of the forty-year Arab-Israeli conflict. Meanwhile, Japan's economic strength has become such that it could, if it chose, share the burden. Understanding the basis of the Japanese approach to the region is already a matter of great importance. Its significance can only increase in the coming years. That it wants to take a minor rather than a major role will depend on global trade politics and the pressure exerted on Japan by the governments of the United States and the European Community.

A POSSIBLE PIVOTAL ROLE FOR JAPAN

It is in the light of this possible pivotal role in the region that the review of Japan's approach to overseas economic co-operation in the Middle East has been evaluated in the studies included in this book. Japan is both a major trading partner of the rich Middle Eastern countries and also potentially a very significant element in the pattern of international assistance flows to those countries of the region which are recipients of overseas assistance as loans.

Japan is one of the seven major trading partners of Middle Eastern and North African countries. Japan's major export trade is with the Gulf countries and it parallels its own oil imports. In 1990 Japan and the UK were respectively seventh and sixth amongst the seven major exporters to the Middle East and North Africa. And the pattern of Japanese exports by country was remarkably similar to that of the UK in value terms. Both Japan and the UK have relatively little export trade with North Africa (including Egypt) and export heavily to the Gulf countries, especially to Saudi Arabia (see Table 2.1). It is because of their poor performance in exporting to North Africa that Japan and the UK occupy the last places in the league of exporters to the region. However, the type of goods exported by Japan and the UK differs greatly, especially to the major destination, the Gulf region, in that arms figure prominently in the list of goods traded by the UK compared with a much wider range of consumer durables and civil technology in the case of Japan.

Japan is by no means a dominant supplier of commodities and manufactures to the region. Germany exported 30 per cent more than Japan in the first ten months of 1990. Japan is, however, by far the major creditor of the Middle Eastern oil-producing countries and a major creditor of the non-oil producers.[1] The position of creditor is not always one of strength, especially in the politically-unstable Middle East, but Japan has

Table 2.1 Organisation for Economic Co-operation and Development (OECD) exports to the Middle East: January-October 1990 ($ million)

	USA	*Japan*	*France*	*Germany*	*Italy*	*UK*
Morocco	418.3	75.3	1,598.9	487.3	370.1	170.9
Algeria	802.6	283.1	2,208.5	769.0	896.0	113.5
Tunisia	160.7	33.8	1,248.8	512.7	657.3	60.8
Libya		110.8	319.6	618.8	872.7	369.2
Egypt	1,835.7	425.6	899.9	976.3	1,098.8	435.1
Sudan	38.5	36.8	31.5	67.3	47.3	96.6
Total North Africa	3,255.8	965.4	6,307.2	3,431.4	3,942.2	1,246.1
Iraq	731.8	266.8	520.5	726.1	266.1	500.9
Saudi Arabia	3,121.6	2,659.3	974.3	1,350.8	991.7	3,110.6
Kuwait	400.7	418.8	130.4	327.7	224.3	307.5
Bahrain	423.5	117.9	46.5	162.9	41.1	185.8
UAE	792.9	1,271.8	518.4	777.2	473.9	969.2
Qatar	87.9	126.6	86.1	75.3	102.5	146.2
Iran	127.5	1,224.9	462.8	1,965.6	850.7	536.2
Others	695.3	598.1	928.2	606.8	532.0	739.0
Total Middle East	6,381.2	6,684.2	3,667.2	5,992.4	3,482.3	6,495.4
Turkey	1,834.0	758.7	1,058.9	3,174.7	1,339.7	874.1
TOTAL	11,471.0	8,408.3	11,033.3	12,598.5	8,764.2	8,615.6

Source: OECD, *OECD Statistics of Foreign Trade,* Series A, Paris, OECD, 1991.

the additional strength, similar to that of Saudi Arabia on the supply side, of being able to exert a disproportionately significant role in the global oil market. In the case of Japan it is its ability to withstand a prolonged increase in the price of oil longer than any other consumer in the industrialised world. Both Saudi Arabia and Japan have powerful roles in the global oil market provided they work with the United States which has the capacity to play the pivotal military role. Everything that happened after 2 August 1991 in the Gulf in economic terms is consistent with a scenario in which the United States, Saudi Arabia and Japan acted to stabilise the world oil market in the interests of the oil consumers. The other oil producers in the region would have much preferred the era of high prices for oil to have been introduced a few years earlier than their anticipated emergence in the mid-1990s.

Japan is not only a major trading partner and a crucial element in the global oil market, she is also a major contributor to official development assistance (ODA) in the Middle East and is one of the major initiators of joint ventures in many countries in the region (see Table 2.2). In 1990 Japan became the largest dispenser of official development assistance dispensing over nine billion US dollars annually, having overtaken the United States which gave over eight billion US dollars each year, although in the Middle East the United States is the leading donor by a very considerable margin as the US devotes a very high proportion of its total aid to two countries, both of them in the Middle East, Israel and Egypt. Japan gives globally almost twice as much as the third donor by value, France, and it has until recently directed over 60 per cent of the total of its 'co-operation with equal but poorer and needier foreign partners in development' to Southeast Asian countries.[2] But it should be noted that the European Community as a whole gives or lends over 22 billion US dollars annually world-wide (as does the World Bank), and if the Community was to to co-ordinate the aid policies of its members, the European Community countries would be by a considerable margin the major source of international development assistance and the role of the European Community is becoming much more significant than in the past.

The approach of Japan to official development assistance is different to that of other industrialised countries in Europe and the United States. Japanese agencies and transnational companies do not extend interest-free loans. Almost all Japanese assistance carries some obligation of repayment and some element of interest even if the terms are very generous, such as a long period before interest begins or the final repayment is due. These terms in inflationary times mean that the assistance is on very soft terms indeed. Japanese insistence on repayment and interest is consistent with a belief that resources will be used responsibly if there is a perceived joint benefit to be derived from the responsible management of funds.[3] This approach is thoroughly consistent with normal western banking and Stock Exchange practice and is also consistent with Islamic banking principles. These last decree that those embarking on a venture should jointly invest and then share according to their commitment the benefits or disbenefits of the investment. That the Japanese approach does not accord with precedents set by other industrialised countries and with the expectations of potential recipient governments does not appear to concern those responsible for Japanese official development assistance. They seem to regard the policies of other national and international bodies dispensing development assistance as irresponsible, rather than soft. Some experience in Eastern Europe in April 1991 confirms the difference of approach where Japan halted a US $500m loan to Poland displaying disapproval of the

Table 2.2 Net official development assistance (ODA) disbursements— 1989

Rank	*Country*	*$million*
1	Japan	8,949
2	USA	7,659
3	France	5,162
4	Germany	4,949
5	USSR	3,900**
6	Italy	3,613
7	UK	2,587
8	Canada	2,320
9	Netherlands	2,094
10	Sweden	1,799
11	Saudi Arabia	1,171***
12	Australia	1,020
13	Denmark	937
14	Norway	917

Notes:
* Excluding some trade assistance.
** Development Assistance Committee (DAC) estimate.
*** Provisional.

United States debt forgiveness policy.[4] At the same time Japanese officials recognise that there are different cultural under-pinnings of the approach to economic assistance. Christian concepts of charity and alms giving provide a cultural and political basis for the policies of the western industrialised countries and those of alms giving a similar inspiration for the donors and recipients from Muslim countries. The Japanese approach is different both for cultural reasons and because of its very recent acceleration to international leader in the field of ODA.[5]

Japan's approach to overseas development is undergoing some change forced partly by the new scale of the activity which is straining a small cadre of specialist staff.[6] In 1990 a staff of only 267 administered its outstanding loans of $34.6 billion. This compares with a staff of 6,600 which administered the $114.5 billion at the World Bank. However, the staff of the Bank includes many departments which are not central to the 'operational' arm of the organisation, and even the operations departments do a great deal of project evaluation and in-depth liaison with borrower governments which do not as yet occupy Japanese international loan administrators in the Overseas Economic Co-operation Fund (OECF).[7] A consequence of the shortage of staff and experience has been that in such regions as the Middle East, and especially in Africa and South America, Japanese economic assistance has been associated with joint World Bank and other international agency projects. Another feature of Japanese official development assistance has been the progressive untying of the aid. In the late 1960s all the loans were tied, that is the borrowers were obliged to purchase Japanese goods and equipment. By 1980, by which time significant loans and arrangements were being made in Middle Eastern countries, the proportion of tied aid had fallen to 10 per cent.[8]

JAPAN'S FUTURE ECONOMIC AND POLITICAL ROLE IN THE MIDDLE EAST

Japan's future role in the Middle East is as big as it chooses to make it. For the foreseeable future Japan has the economic clout to have a determining influence in world economic affairs as well as a major role in the global oil market. To date it has been constrained from demonstrating the potential international political dimensions of its economic power partly by constitutional impediments but mainly as a consequence of a widely-held consensus in Japan that the mistakes of the 1940s must not be made again. A national confidence that apart from this lapse the Japanese approach will prevail internationally through the nurturing of hard-won economic surpluses and their subsequent deploy-ment in sound economic activity overseas appears to be progressively confirmed as a comprehensively-successful policy. The Middle East will play a different role in Japan's economic future than other regions. It is unlikely that the Middle East will draw the levels of investment already in train in Southeast Asia, North America, Europe and Australasia. In these regions the reciprocation in return for inward investment and a reduction in the relentless pressure from Japanese exporters is an increasingly secure participation by Japanese manufacturing companies in the sophisticated and massive markets of these highly-developed industrial economies. These developments follow naturally, and complement, the financial infrastructure already in place in all these regions as a result of the establishment of the Japanese banks in the major financial centres.

The oil-rich countries of the Middle East which have the capacity to finance the development of almost any agricultural or industrial enterprise do not, on the other hand, have either a sufficiently large indigenous market, or the capacity to staff new manufacturing plants, or populations with the disposition to become involved in an industrial life-style. The countries with some of these characteristics, such as Egypt, do not have the physical and institutional infrastructures to make investment attractive. There is a very clear complementarity between the needs of a country such as Egypt and the potential of Japanese investment, but for the moment the region is still too unstable to risk another Mitsui experience. This scenario is likely to remain for as much as a decade unless there is a significant change in the stability of the region. The early 1990s could mark the beginning of new styles of national politics in individual Middle Eastern countries, and as a consequence a new pattern of regional relations may emerge as the result of a reduction in the level of confrontation in the major destabilising conflicts in the region. The progress made in 1990 and 1991 was unprecedented and a continuation would enable very significant reductions in military spending and the reallocation of scarce national investment resources to sectors which will bring important economic and social returns.

Avoiding the military responsibilities of global security have brought many advantages to Japan and have enabled it to be remote from the untidy and expensive wars of the second half of the twentieth century. The Middle East theatre is not one where Japan would have played a natural security role. But even the wars which occurred relatively close to hand, in Korea and Vietnam, brought Japan none of the negative stresses of war and rather strengthened the Japanese economy by providing rapidly expanding demands for Japanese products for the US protagonist in the conflicts. For most of the past forty years the superpowers have been significant in economic and especially security matters in the Middle East, and have since 1956 been the major arbiters of the termination of international conflict in the region if they have not always been privy to their initiation. Japan shows no inclination to play a superpower role in the Middle East, nor even one reflecting its significance in terms of Middle Eastern trade and its global strategic economic significance any more than it does in any other region.

Japan wishes to promote regional stability by economic means alone and as a result has not to date played a determining role in the region's affairs. It proved unwilling to depart from its constitutional prerogative not to intervene in the Gulf War of 1991. At the same time it was fully aware of the economic expectations of the United States Government and its allies with respect to funding the expenses of the conflict's preliminaries and of the conflict itself. The other industrialised countries are only a little less aware than the Japanese Government of Japan's dependence on Middle East oil and especially its dependence on the stability of the global oil market. The case study of the 1990–1 crisis and war is a graphic example of how an economy can benefit, in this case to the tune of billions of dollars per year, from the lowering of the price of a commodity traded globally by politico-military intervention, in this case an alliance of international and regional military forces. That Japan was the only country which could have endured a prolonged period of peak prices indicated by the surge in the price after the invasion of Kuwait by Iraq on 2 August 1990 is academic if briefly inconvenient to oil consumers such as Japan. Not academic is the fall in the price, back to its pre-war level, as a consequence of the military intervention of August 1990 to February 1991. All the consuming countries have been saved a sum as great as the cost of their current oil imports as the price could have remained as high as the peak level for a long period if the capacity of Saudi Arabia to expand its production had also been prevented by the Iraqi forces. The importance of Saudi Arabia's capacity to export and the flexibility with which its exports can be expanded have been powerfully demonstrated by the events of 1991. The options available to Japan are therefore extremely impressive. Not only could Japan have withstood the economic inconvenience of high energy prices which would have crippled many of its industrial competitors, it could also take advantage of the political and military intervention of the UnitedStates-led UN coalition, an advantage diminished only by having to respond to demands of the coalition to provide some of the expenses of the conflict and the domestic angst which attended that allocation.

Figure 2.1 shows the spot price for crude—Brent crude—May 1990–July 1991 (showing how the price of oil varied during and after the Gulf crisis) and Figure 2.2 shows the oil production of OPEC members 1984–July 1990 (showing how the production of Saudi Arabia and UAE increased to make up for the absence of production from Kuwait and Iraq).

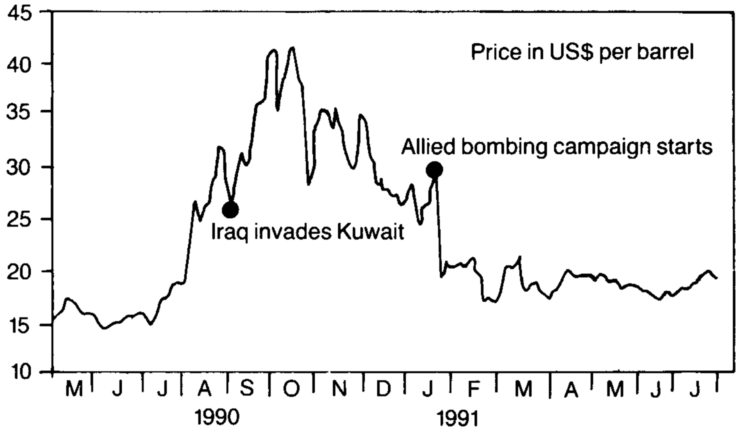

Figure 2.1 Brent crude spot prices

The remarkable complementarity between Saudi Arabia and Japan which was suspected before the events of 1990–1 is now proven. For the foreseeable future they will both have the capacity to operate at the political and economic margin of the oil market and in a political economy without a military superpower the economic brokers would be Saudi Arabia and Japan. The future of the relationship will depend on events outside the region. With the United States prepared to act as champion of the interests of the industrialised world there is no need for Japan to exert an independent Gulf policy. At the same time Saudi Arabia's current leadership has the same US champion and in the past year both Saudi Arabia and Japan have provided their champion with a huge and

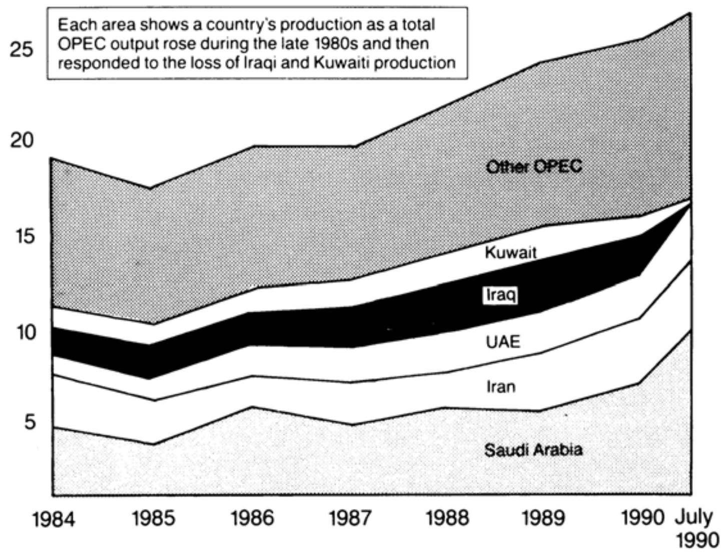

Figure2.2 Production by OPEC

unprecedented subsidy to the US defence budget. Not since the dawn of defence spending, which goes back many millennia, has there been such a massive real and non-coerced transfer of economic resources from one political entity, or in this case two, to another. This all comes from the alarming cost of modern military conflict. To play in the big league a military entity needs to be able to draw on an economy, or a coalition of economies, able to generate a billion US dollars per day.

The problem with the existing scenario is that the United States, while it has a leading military competence, could afford fewer days of such a conflict than Japan or even Saudi Arabia. The unique conjunction of events of August 1990 should be emphasised. It was a conflict over a resource which mattered to the leading global military power, the United States, to the leading global economic power, Japan, as well as to the pivotal global exporter of crude oil. If ever a political leader needed political counsel on the ways of the global political economy rather than the local political economy it was Saddam Hussein in 1990. He correctly judged the local scenario and had more than enough military power to have his economic way with the Gulf. His decisions, however, were totally inconsistent with the interests of a world run according to the priorities of much bigger economic entities than those which have apparent property rights to their natural resources in the Gulf. These property rights were shown to be held in trust on behalf of the industrialised world according to arrangements laid down on independence and within a territorial structure which lends itself to mani-pulation by the major consumers which happen to be the richest and most powerful military countries in the world. The difference between the Gulf conflict of 1990–1 and other conflicts where the superpowers were given an expensive lesson in jungle warfare—Vietnam in one case —and in mountain guerrilla operations—Afghanistan—was partly the terrain, which in the Gulf is neither mountainous nor jungle covered, but that the political and territorial principles being asserted were coincidental with the overwhelming commercial concerns of the richest and the most militarily powerful. Had the erstwhile superpower, the Soviet Union, chosen to act like a superpower, there would have been a global conflict of an unprecedented scale.

Japan's ability to play a more influential role in this strategically sensitive area of the Middle East will grow as its economic power increases in comparison to that of the other major players, the United States and the European Community. It could be assumed that the Soviet Union will not be a significant player for a couple of decades but this is not a totally safe assumption in that its military capacity as an ally of one or more of the states of the Middle East could again strongly affect the international relations of the region. However, the emerging economic dependence of the Soviet Union on the western industrialised countries will inhibit the options of Soviet foreign policy very severely. The experience of the past two decades globally, and especially in the Middle East, shows that Japan would not choose to exert its real politico-economic power at either the global scale or at the level of the Middle East region, no matter what its confidential global goals may be.[9] There is even an argument that these goals will be best served by allowing the United States to play its global policeman role on behalf of the currently-prevailing economic system which serves the interests of the industrialised world so well in general and particularly those of Japan.

The approach of the Japanese Government and of its trading agencies is very clearly conditioned by Japan's intrinsic economic strength but increasingly by the obligations which such strength brings with it. Japan would presumably prefer to operate in a purely economic framework but much that has happened since the mid-1970s indicates that its own specific interests can only be served through the building of explicit reciprocal relationships, whether they be bilateral such as the Mitsubishi venture in Saudi, or the sharing of the financial burdens of multilateral operations. The experience of the Gulf War is just an extreme example of the form, in this case an operation legitimised by UN resolutions co-ordinated by the United States.

Chapter 3
The Japanese trade contact with the Middle East
Lessons from the pre-oil period[1]

Hiroshi Shimizu

INTRODUCTION

Since the early 1970s there have been several major crises in the Middle East, including the fourth Middle East War of 1973 leading to the first oil crisis, the Iranian Revolution of 1979 resulting in the second oil crisis, the Iran-Iraq War of 1980–8 and the invasion of Kuwait by Iraq in August 1990. As Japan has been heavily dependent upon Middle Eastern oil in the post-war period, these crises have had impacts upon her economy in varying degrees. Actually, the share of oil in Japan's primary energy supply rose steeply from a mere 17.7 per cent in 1953 to 37.7 per cent in 1960, 58. 4 per cent in 1965 and 70.8 per cent in 1970.[2] The volume of her crude-oil imports also rose absolutely from 564,000 b/d (barrels per day) in 1960 to 1.5 million b/d in 1965 and 3.4 million b/d in 1970. The bulk of these came from the Middle East which was responsible for 80.1 per cent of her total imports in 1960, and 84.7 per cent in 1970.[3] Over 70 per cent of her crude-oil imports come from the region in 1990.

It is therefore not surprising to find that, since the first oil crisis, the volume of literature on Japan-Middle East economic relations has increased substantially. The large majority of the works, however, deal with the period since the early 1970s, and take hardly any notice of such relations during the preceding period, apparently assuming that they were of little significance possibly apart from Middle Eastern oil exports to Japan. Turner and Bedore, for example, simply say that 'Japan has had no historic ties with the Middle East region', while David Lang states that 'pre-1973 Japan-Middle East relationship was a low-profile one because of geographic remoteness and the absence of significant historical ties. [Japan's] Trade with the few countries existing there was modest.'[4] Emery and others also write that 'Japan has virtually no close historical ties with the region [the Middle East] and prior to 1973 had relatively little interest in fostering commercial relations with specific countries [there].'[5] Moreover, those who do make reference to Japan in their works on the

Middle East merely talk of 'Japanese dumping'.[6] It would seem that the role of Japan in the contemporary economic history (before 1973) of the Middle East has been largely ignored by most of the Middle East scholars.[7]

In this chapter it is argued that there were significant commercial relations between Japan and the Middle East in the pre-oil (or pre-World War II) period, but such relations were not greatly strengthened by the Japanese Government and business in the post-war period until the first oil crisis. Actually, Japan's trade contacts with the region began in earnest as early as the 1920s, and her relations with it became significant during the Depression years when Japan emerged as the major supplier of textile goods for the Middle East.

In the pre-World War II period there was no major Japanese direct investment in the Middle East. And in the post-war period before the first oil crisis, the value and number of Japanese direct investments were limited. Moreover, Japan did not play a significant role in the Middle East's political affairs in the past. It is true, however, that her victory over Russia in the Russo-Japanese War of 1904–5 had an enormous impact upon Iran and the Ottoman Empire. This was largely because Japan (an Oriental and non-Christian state) had recently transformed herself from a feudal state to a modern constitutional state, and defeated their enemy, Russia. The example contributed to the rise of a constitutional movement in Iran, and to the awakening of Arab nationalism.[8] Also, in the late 1930s and early 1940s the Japanese Government began to implement its Islamic policy by mobilising Muslim forces mainly against the UK, China and Russia in East Asia, Southeast Asia and the Middle East, while trying to establish close political relations with certain Middle Eastern states, notably Iraq. But these turned out to be abortive, especially after the overthrow of Iraq's anti-British regime under Prime Minister Rashid Ali al-Gailani in May 1941.[9]

JAPAN'S EARLY TRADE CONTACTS WITH THE MIDDLE EAST

In the first half of the nineteenth century, Egypt, Iran and Ottoman Turkey all lost their tariff autonomy to the European powers through various international commercial treaties. In 1838, the Turkish import duty was fixed at 5 per cent *ad valorem* by the Anglo-Turkish Commercial Convention, the terms of which were equally applied to Egypt. It was raised to 8 per cent *ad valorem* in 1868. As for Iran, she lost her tariff autonomy after the conclusion in 1828 of the Treaty of Turkomanchai with Russia, and the external tariff was fixed at 5 per cent *ad valorem*. These low tariffs facilitated the easy flow of machine-made European goods, notably textile goods, into the Middle Eastern markets, dealing an irretrievable blow to local handicraft industries.[10] It was only in the late

1920s and early 1930s that these countries managed to regain their tariff autonomy. It is worthwhile to note, incidentally, that in the late 1850s Japan herself had suffered the same fate at the hands of the western powers, and it was not until 1911 that she managed to regain her autonomy completely.

Prior to World War I, the Middle East was little known in Japan politically or economically.[11] During the war, however, Japanese cotton piece-goods and other manufactured goods found their way into the Middle East mainly through Aden, Alexandria and Port Said in the virtual absence of the major European competitors such as Britain. And Japan gained footholds in the Middle Eastern market for cotton textiles which were to become her major export item in the inter-war period.[12] The value of Japanese exports to Egypt, for example, rose steeply from 1,371,000 yen in 1913 to 5,388,000 yen in 1916 and 28,468,000 yen in 1918, while that of her imports from the same country (consisting mainly of raw cotton) rose moderately from 7,143,000 yen to 8,332,000 yen and 9,179,000 yen in the same years.[13] It is also true, however, that Egypt's manufacturers such as the Filature Nationale d'Egypte increased their output greatly during the war.[14]

In the post-World War I period, as a newcomer to the region, Japan had to start virtually everything from scratch. She did not physically fight against Ottoman Turkey during the war, but since she was on the side of the Allies against Germany and Austro-Hungary with which the Turks joined forces, she emerged as one of the victorious powers at Versailles. She then participated in the San Remo conference in 1920 where Iraq, Palestine and Transjordan were mandated to Britain, and Syria and the Lebanon to France. She was also a participant in the Lausanne Peace Treaty in 1923 where the destiny of Turkey was finally decided. Although she could not have any territorial and/or political ambitions over the former Ottoman possessions in the face of the two major European powers, Britain and France, she could at least become familiar with the economic and political conditions of the Middle East. Indeed, this must have been of some assistance when the Japanese began seriously to cultivate various Middle Eastern markets in the 1920s. Japan also managed to conclude a trade and navigation agreement with new Turkey on a most-favoured-nation (mfn) basis. In 1925 she established in Istanbul the first and only Embassy in the entire Middle East in the inter-war period.

As for Egypt, in December 1919 the first Japanese Consulate in the region was set up at Port Said, largely for the security and protection of Japanese shipping through the Suez Canal. It was followed by the establishment of the Consulate-General in Alexandria in 1926 and the Legation in Cairo in 1936. In 1930 Japan concluded a temporary trade agreement with Egypt as the Egyptian Government regained the tariff autonomy. Also, in 1929 she established a Legation at Tehran and concluded a commercial agreement with the Iranian Government on an mfn basis. In all the mandated territories, Japanese goods were subject to mfn treatment by virtue of Japan's membership of the League of Nations. The Japanese Government set up a Consulate in Beirut in 1937 and a Legation in Baghdad in 1939.

Therefore, Japanese goods could be treated as legally equal to those of the western powers in tariff matters in the Middle East for the first time in history. This was very important, because such countries as Egypt and Turkey imposed prohibitive duties on imports from those countries which had no commercial treaties with them in the inter-war period. Before the conclusion of the temporary Egypto-Japanese trade agreement in 1930, the Egyptian Government had imposed such duties on low-priced Japanese tobacco leaf imports, partly in response to the pressure exerted by Greece and Turkey which suffered severe Japanese competition.[15]

In the meantime, the first Middle East Conference was held in Istanbul in 1926 under the chairmanship of the Japanese Ambassador to Turkey, Y kichi Obata, and was attended by the several Japanese diplomats in the region. They decided to press the Japanese Government into adopting various trade promotional measures such as the establishment of direct Japan-Middle Eastern shipping routes, commercial museums and branches of the Yokohama Specie Bank (Japan's main semi-official foreign exchange bank). Most of the measures had been put into practice by the early 1930s. In 1927, for example, a Japanese commercial museum was set up in Cairo under the auspices of the Japanese Ministry of Commerce and Industry, and another in Istanbul in 1929. Their functions included agency arrangements for Japanese firms, the exhibition of sample goods and settlement of any commercial dispute between local and Japanese merchants. Moreover, in 1926 the Yokohama Specie Bank opened its representative office in Alexandria to provide foreign exchange and credit for local and Japanese merchants.[16]

In 1929 the first direct Japan-Middle East shipping route was established. Prior to that year, Nippon Yusen Kaisha's (NYK) ships on its Yokohama-Liverpool route had called at Aden and Port Said, and then sailed off to Genoa. In view of growing demand for Japanese cotton piece-goods and other light consumer goods, the Japanese Government decided to grant 100,000 yen to the company as an annual subvention for its ships to make additional calls at Beirut, Istanbul and Piraeus as from April 1929. Besides, from 1935 NYK's ships on the Yokohama-Liverpool and Yokohama-Hamburg routes began to call regularly at Alexandria on their return voyage largely for the loading of raw cotton. Moreover, in 1933 the Yamashita Steamship Company began to provide shipping services on the Japan-Persian (or Arabian) Gulf route on an irregular basis in response to Mitsubishi Trading Company's (MTC) strong request. And from January 1934 it became regular. Later in the year NYK extended its Yokohama-

Bombay route to include certain Gulf ports, while the shipping division of Mitsui & Co. Ltd and Ōsaka Shōsen Kaisha (OSK) also operated a monthly service to the Gulf from the mid-1930s. All these shipping services enabled the quicker delivery of Japanese goods and cut down their transportation costs to the Middle East.

In the 1920s Aden and Egypt were two major countries from which Japanese goods were redistributed to other parts of the Middle East. Large quantities of Japanese goods were unloaded at Aden and were re-exported to the neighbouring Arab and African states, mainly by the Indian merchants in the 1920s and 1930s. As for Egypt, until the early 1930s a considerable part of Japanese goods destined for various Middle Eastern markets continued to be imported by large local merchant houses in Cairo and Alexandria, mainly through Jewish and other foreign commission agents in Japan. The foreign commission agents based in the Kobe-Osaka area in the 1920s included Dodwell & Co., Y.G.Gazal & Co., L.D.Abraham & Co., Pieciotte Bros. & Co. and Isaac Antari & Co.[17]

This does not mean that in Egypt there was no representative office of a Japanese trading company. Nippon Menka, a specialist cotton trader, was the first Japanese company to import Egyptian cotton through a local commission agent, Peel & Co. in 1900. In February 1923 it set up the first Japanese representative office with three Japanese staff in Alexandria for the export of Egyptian cotton to Japan and the import of Japanese tobacco. The local office was also engaged in the import of Japanese grey shirtings which they sold to local merchants in co-operation with a trade representative of Kanegafuchi Spinning Co. in the Egyptian market as well as the markets of the Balkans and Mediterranean states.[18]

In the early 1930s other Japanese trading companies, including MTC and Mitsui & Co. Ltd, established representative offices in Alexandria, as they wanted to promote the sales of Japanese goods by aggressive selling through their own local offices rather than by relying upon local commission agents who had other commitments. However, Kanematsu was the only one which set up a representative office in Cairo.[19] As a result, in the 1930s Japan's export trade with Egypt and other parts of the Middle East became increasingly in the hands of the Japanese firms themselves. In response, the large and medium-sized merchant houses in Egypt either set up purchasing offices in or despatched their employees to Japan for direct purchasing of Japanese goods with a view to competing effectively with the Japanese trade representative offices in their country.[20]

In the case of Turkey, Japanese goods were imported either directly by local commission agents representing Japanese firms, or indirectly through Alexandrian merchants. One of the first trading companies in Istanbul to deal in Japanese goods was C.Whittall & Co., a long-standing English company, acting as the sole commission agent for Dainihon Spinning Co. in the 1920s. Although Japan's trade expansion took place in the country during the early Depression years, it was thereafter halted by the Turkish Government's new economic policy.[21]

In the 1920s Iran imported large quantities of textile goods from Russia, but, because her relations with her neighbours deteriorated in the early 1930s, she began to diversify her import sources. The Iranian Government was particularly interested in low-priced Japanese cotton textiles. And MTC set up a locally-incorporated company, the Japan-Iranian Trading Company at Tehran in September 1933 with a view to expanding its trade activities in the country. The subsidiary mainly imported Kanegafuchi and Toyō Spinning Companies' printed cotton piece-goods through its parent company in Japan, and supplied Iranian raw cotton to these spinners through the same channel.[22] As for Iraq, most of the Japanese goods were imported by wholesale merchants and large retail traders (most of whom were in Baghdad) through commission agents. Some of the Japanese goods were also imported by local merchants on their own account. But since some merchants were importers, commission agents, wholesalers and large retailers all at the same time, it was sometimes difficult to distinguish between them.[23] As in Egypt, many of the local merchants were Jews. In 1936 MTC established a trade representative office in Baghdad, which was then actively engaged in the import of Japanese goods and the export of local commodities, notably raw cotton, to Japan.

In Syria the bulk of Japanese goods was imported via large merchant houses in Alexandria, at least until April 1929 when NYK's ships on the Yokohama-Liverpool route began to call at Beirut. But many Syrian merchants continued to import them via Alexandria in the 1930s. There are several reasons for it. In Alexandria, their credit standing was known, and they could obtain goods on credit. Japanese firms often asked them to open a credit for the total value of the goods when they placed orders. Because of the long distance from Japan, they could not obtain goods from Japan within a short period of time. Moreover, as prices of Japanese goods tended to fluctuate violently, local merchants could easily incur huge losses if and when they had fallen on arrival at Beirut. On the other hand, they were assured of quick delivery straight fiom godowns in Alexandria.[24] Although Gōshō and MTC had representative offices in Beirut in the 1930s, there is no available information about their commercial activities. In Palestine no Japanese trading company had a representative office. The bulk of Japanese goods destined for the market were reconsigned at Port Said and Alexandria. Certain quantities of Japanese goods were also imported via Beirut.

By the early 1930s, the foundations of Japan's trade expansion had been largely laid, and Japanese merchants were ready to capture the Middle Eastern markets for light industrial goods.

JAPAN-MIDDLE EAST TRADE FRICTIONS IN THE 1930s

In recent international economic history there has been a general tendency for local manufacturing industries in developing countries to grow rapidly during wars and/or depressions when their economic relations with advanced industrial states became weakened. This was largely because natural protection could be provided for their nascent industries against competition from imports.[25] This could be truly said of such Middle Eastern states as Turkey and Egypt in the Depression years of the 1930s. But it is equally important to note that these countries managed to regain their tariff autonomy in the late 1920s and early 1930s, giving themselves a certain measure of tariff weapon to protect their infant industries against foreign competition.

It should also be noted that the Depression witnessed not only the establishment of import-substitution textile industries, but also the emergence of Japan as a major supplier of cotton textile goods for the Middle East. As Tables 3.1 and 3.2 show, in the first half of the 1930s Japan's rapid trade expansion took place in the Middle Eastern states, and by 1934 Japan had emerged as the second largest supplier for several of them. A high proportion of imports from Japan comprised textile goods, particularly cotton piece-goods. In 1935, for example, cotton piece-goods alone accounted for some 63 per cent of the total imports, while the remainder consisted largely of other textiles and sundry goods.[26] In 1934 Japan was responsible for 68.1 per cent of Egypt's total cotton piece-goods imports, 60.7 per cent of Palestine's, 82.9 per cent of Syria's and 17.3 per cent of Turkey's, while in 1934–5 she supplied 78.6 per cent of Iraq's and 30.7 per cent of Iran's.[27]

Surprisingly, most of the works covering the inter-war economic history of the Middle East take hardly any notice of Japan's trade expansion. Moreover, some scholars, including Davis and Hershlag, simply attribute it to '(social) dumping'.[28] It is true that the wage index of the female operatives who constituted the large majority of the work-force in the Japanese cotton textile industry fell steeply from 100 (base year) in 1930 to 78.4 in 1932 and a mere 68.4 in 1936.[29] This could easily be done as there was much surplus labour in subsistence agriculture in the countryside. It was probably similar to the situation given in the Lewisian theory of unlimited supplies of labour.[30] Moreover, as G.C.Alien notes, there was a significant rise in productivity in the textile industry thanks to rationalisation.[31] Actually, during the period from 1929 to 1936 labour productivity in the cotton weaving and spinning industries rose by 27 per cent and 56 per cent respectively.[32]

Another reason for the fall in the prices of Japanese goods was the depreciation in the exchange value of the yen in the early 1930s. The fact is

Table 3.1 Japan's shares in the total imports of the Middle Eastern states (percentages of total value)

	1929	*1934**
Aden	6.7[a]	15.3 (2)[b]
Egypt	3.3	11.8 (2)
Iran	0.7[c]	8.0 (6)[d]
Iraq	[e]	20.4 (2)[b]
Morocco[f]	[e]	8.1 (2)
Palestine	0.1	3.9 (6)
Syria	2.2	11.3 (2)
Turkey	2.1	1.8 (14)

*The numerals in parentheses refer to the order of importance as exporter to the Middle Eastern states concerned.

Sources: JFM, Kurihara (Bombay) to Tanaka, Enclosure to Despatch 67, 14 March 1929, E.3.2.O/XI-B15; Ibid. Ōno (Port Said) to Arita, Enclosure to Despatch 16, 27 January 1937, E.3.2.O/XI-B15; Shimizu, *Le Commerce Extérieur du Maroc 1912-54,* 'Rise and fall'.

Notes: (a) Financial year 1927–8.

(b) Financial year 1934–5.

(c) Iranian civil year 1929–30 (that is, 21 March 1929 to 20 March 1930).

(d) Iranian economic year 1934–5 (that is, 22 June 1934 to 21 June 1935).

(e) Not available,

(f) French zone only.

that as Britain left the gold standard in September 1931, Japan had no choice but to follow suit in December. Subsequently, sterling and the yen were allowed to depreciate. By early 1933 the former had been devalued by about 40 per cent against gold and the latter by more than 60 per cent. However, France continued to keep its currency on gold until September 1936. Since the currencies of most of the Middle Eastern states were linked to either sterling or the franc, Japanese goods became even cheaper in these markets. Besides, the average freight rate charged by the Japanese shipping companies was much lower than that by their European counterparts, partly because they could enjoy low operating costs and partly because of subventions, both direct and indirect. In May 1934, for example, the British shipping companies charged 21 yen 82 sen for the transport of raw cotton per 2,000 Ib. from the Persian Gulf to English ports. The freight rate for the Gulf to Japanese ports by Japanese shipping companies was a mere 16 yen 53 sen, despite the fact that the Gulf was much closer to England than it was to Japan.[33] Similarly, in May 1935 the freight rate for a ton of raw cotton from Alexandria to Liverpool was 27 shillings 6 pence,

Table 3.2 Japanese exports to the Middle Eastern states (in thousand yen)

	1920	1929	1931	1933	1935	1937	1939
Turkey	736	2,551	3,790	2,432	3,241	2,753	876
Egypt	30,550	31,352	22,830	55,608	53,800	32,772	15,666
Iran					9,591	2,629	19,323
Iraq					22,073	23,644	24,344
Aden			4,809	7,193	13,208	14,177	10,002
Arabia[a]					4,576	4,827	3,748
Morocco[b]					18,813	18,283	20,592
Total	31,286	33,903	31,429	65,233	125,302	99,085	94,551

Sources: Japan Statistical Yearbook, 1949, pp. 480, 483; Ibid., 1950, pp. 217, 220; Ibid., 1955–6, p. 249.
Notes: (a) Comprises Saudi Arabia, Kuwait, Trucial Oman, Oman, Qatar and North Yemen,
(b) French zone only.

but it was 24 shillings to Japan.[34] Low freight rates undoubtedly helped to cut down the costs of Japanese goods for the Middle Eastern markets.

It may be worthwhile to bear in mind, incidentally, that Japan was a newly-industrialised country where workers' wages were much lower than those of the advanced industrial states of the west, and trade unions were not well organised to improve their working conditions. Japan naturally had comparative advantages in such labour-intensive industries as cotton-weaving and -spinning. Her rise can probably be compared to that of the NIEs (Newly-industrialising Economies—South Korea, Taiwan, Singapore and Hong Kong) which emerged with their successful export-oriented industrialisation, particularly during the world-wide recession period of the 1970s. They have had comparative advantages in labour-intensive industries, notably electrical and electronics industries, and their emergence cannot be explained in terms of dumping alone.

In the early 1930s Japanese cotton piece-goods were much cheaper than competing European goods in various Middle Eastern states, because of the combination of all the factors mentioned so far. In December 1932 the average price of Japanese grey shirtings was 176 Syrian piastres per 24 yards (c.i.f. Beirut), whereas that of similar British goods cost 357.5 Syrian piastres.[35] Similarly, in Iraq prices of all classes of Japanese cotton piece-goods were at least one-third lower than those of similar British goods in the mid-1930s.[36] Apparently their quality was in general inferior to that of British piece-goods, but it was of secondary importance in the markets with low purchasing power. During the Depression years low-priced Japanese goods became extremely attractive to the impoverished consumers who obviously constituted the large majority of the population in all the Middle Eastern states, as their living standards deteriorated as a result of the steep decline in the prices of their primary commodities on the world market. It should be remembered that in the inter-war period the 'great oil-boom era' did not arrive in the Middle East, and the economies of all the states and sheikhdoms were based largely on subsistence agriculture. As her major export item, raw cotton, sharply declined in price, Egypt, for example, experienced a marked deterioration in her terms of trade from 100 (base year) in 1910–14 to 91.4 in 1929 and 54 in 1933.[37] During the period from 1929 to 1935 Egypt's gross domestic product also fell by 2.5 per cent per annum.[38]

However, Japan's trade expansion did not remain unimpeded. In the 1930s many countries in the world resorted to the practices of bilateralism and trade restrictionism to cope with the period of economic recession in the wake of the Depression. By the mid-1930s the Middle East had become one of the few regions where Japan was comparatively free from trade restrictions. It should be pointed out that in most of the 1930s Japan continued to suffer large trade deficits with foreign countries and was desperately in need of foreign exchange to import industrial raw materials and mineral fuels, which were not sufficiently available in the Japanese empire. Actually, prior to 1935 Japan bought little from most of the Middle Eastern states, enjoying huge trade surpluses. At the peak in 1935, Japan supplied the region with 125,302,000 yen worth of goods (or some 5 per cent of her total exports), and imported 55,765,000 yen worth of Middle Eastern products (some 2.2 per cent of her total imports), the bulk of which comprised Egyptian raw cotton (see Tables 3.2 and 3.3).[39]

Table 3.3 Japanese imports from the Middle Eastern states (in thousand yen)

	1920	*1929*	*1931*	*1933*	*1935*	*1937*	*1939*
Turkey	604	202	374	976	1,036	2,818	2,018
Egypt	13,263	25,824	13,568	26,456	51,305	74,118	50,312
Iran					729	1,589	6,587
Iraq					1,257	9,028	3,690
Aden			22	10	364	1,356	2,291
Arabia[a]					434	546	9
Morocco[b]					640	1,518	782
Total	13,867	26,026	13,964	27,442	55,765	90,973	65,689

Sources: Same as Table 3.2
Notes: (a) see note (a) of Table 3.2.
(b) French zone only.

In the states and sheikhdoms of the Arabian peninsula, Japan was free from trade restrictions on her goods in the 1930s, largely because their people were heavily dependent upon cheap Japanese textiles and other goods. But some Middle Eastern states became increasingly dissatisfied with the smallness of the purchases by Japan of their primary commodities, and began to impose or threatened to impose restrictive measures against Japanese imports often under the pressure of the European powers who had hitherto continued to supply the bulk of textile imports, and who remained major customers for their primary produce. Britain suffered most from Japanese competition, as she had been by far the leading supplier of textile goods for most of the Middle Eastern states before the advent of Japan.[40] Moreover, Egypt, Turkey and Iran needed to foster their nascent textile industries under tariff protection against foreign (particularly Japanese) competition in the 1930s. Although Japan was under great pressure to increase her purchases of local produce, there were not many kinds of primary commodities which the Japanese merchants could import from the region at a profit. They could easily buy similar and often better quality produce from other parts of the world, namely, the United States and the British Empire.

In the inter-war period Japan was a large raw cotton importer, and bought huge quantities of that textile material largely from the United States and British India (see Table 3.4). Egypt was one of the major cotton producers, but until the mid-1930s the Japanese merchants were not very eager to buy large quantities of Egyptian cotton, mainly because Japanese spinners preferred low-priced Indian and American cottons to high-quality and expensive Egyptian ones. The Egyptians were therefore increasingly dissatisfied with the fact that, although Egyptian cotton exports to Japan did not increase greatly, the Japanese were rapidly capturing its market for textile goods. Also exceptionally cheap Japanese imports had adverse effects upon their country's nascent textile industry.[41] Eventually, in July 1935, the Egyptian Government denounced the temporary Egypto-Japanese Commercial Agreement of 1930, and in September of that year imposed a 40 per cent depreciated currency surtax (or 'dumping' tax) on Japanese cotton and rayon piece-goods. Since Japanese goods had to pay the 40 per cent surtax in addition to the normal import duties which were already high, the volume of Japanese exports to the Egyptian market fell steeply in the second half of the decade (see Table 3.2).

As the local representative offices of the Japanese trading companies found it increasingly difficult to sell Japanese cotton piece-goods in the market, they began to diversify the range of Japanese goods, while trying to increase the export to Japan of Egyptian cotton. In 1935, for example, Nippon Menka created a sundry goods section at its local office to deal in Japanese tinned foods and other foodstuffs as well as Japanese dyestuff. Also, after the outbreak of the Sino-Japanese War in 1937, the demand for

Table 3.4 Raw cotton imports into Japan by principal suppliers (in thousand piculs)

	US	*India*	*China*	*Egypt*	*Others*	*Total*
1920	3,274	4,195	204	70	96	7,839
1930	3,883	4,725	703	183	79	9,573
1935	5,758	5,221	427	537	351	12,294
1939	2,873	3,389	1,081	578	2,172	10,093

Source: Penrose, 'Textile, raw materials' in E.B.Schumpeter (ed.) *The Industrialization of Japan and Manchukuo,* New York, Macmillan, 1940, p. 211.

high-quality Egyptian cotton rose considerably in Japan because of the increased military use.[42] In view of all these, Japan's imports of Egyptian raw cotton rose enormously in the second half of the 1930s, even though the United States and India remained the leading suppliers for the Japanese market (Table 3.4). This was, however, not enough to persuade the Egyptians to remove the dumping tax on Japanese textiles.

In the early 1930s Turkey adopted foreign exchange control and import quota systems with a view to improving her trade balances and protecting local industries. As Japan accumulated large surpluses in trade with the country, the Turkish Government began to consider the possibility of adopting a restrictive measure against Japanese imports. Japan therefore needed to forestall it. As Turkey was in need of foreign investment for the development of a modern textile industry, in 1932 the Japanese Ambassador to Turkey, I.Yoshida, made a proposal to the Turkish Government for the establishment of cotton textile mills in the country. But this plan did not materialise for reasons which are not clear.[43] Moreover, in 1933 the Turco-Japanese Trade Guild was formed in Osaka among Japanese merchants with the aim of assisting and encouraging its members to increase their purchases of Turkish products.

From 1934 Turkey's foreign trade with most of the countries was conducted through the clearing system. Actually, the Turkish Government concluded with Japan a temporary bilateral compensation agreement in 1934, under which the value of imports of Japanese goods was limited to that of Turkish exports to Japan. In spite of the great efforts made by the trade guild, the Japanese failed to increase their purchases from the country substantially, and were unable to continue to supply large quantities of cotton piece-goods. As Italy and Germany had the best clearing accounts, they emerged as leading suppliers of cotton piece-goods at the expense of Japan in the market. It should also be noted that Turkey's modern cotton textile industry developed greatly under protection since 1934 when it was set up with Russian—and later German—technical and financial assistance under the Five-Year Plan.[44]

As for Iran, she managed to regain tariff autonomy in 1928 and made moderate tariff increases. The Iranians were nevertheless not permitted to change the 1928 tariff rates for another eight years as a result of new international commercial treaties with the western powers. Towards the end of the 1920s Iran also had large trade deficits, and the situation deteriorated further during the Depression years. The government therefore introduced exchange control and tightened a system of state monopolies over foreign trade in the early 1930s, in order to balance Iran's trade with other countries as well as to strengthen her bargaining position *vis-a-vis* her principal trading partner, Russia.[45] In 1934 it was decreed that the import of cotton piece-goods was made strictly dependent upon the prior export of Iranian products and was to be mono-polised by the government. Later, similar monopolies of all the leading commodities, imported and exported, were established. The Iranian-Japanese trade was conducted on a barter basis whereby Iranian raw cotton was exchanged for Japanese cotton piece-goods. It was not easy for Japan to continue to export large quantities of goods to the country, as she was unable to increase substantially the purchases of Iranian products. However, in 1933 MTC managed to win an open bidding for the sales of 10,000 tons of cement to the Anglo-Iranian Oil Company's Abadan plants in the face of severe Russian competition. Japanese cement was also used in the country's national railway construction works.[46]

It was Russia which continued to supply the bulk of cotton piece-goods to Iran in most of the 1930s, thanks largely to the Russo-Iranian barter agreements, the last of which was concluded in 1935. However, in 1938 Iran decided not to renew it, as she wanted to reduce her dependence upon her neighbour. Moreover, the Trans-Iranian Railway was completed in the same year. This enabled Japan to supply the country with large quantities of cotton piece-goods again. It should be borne in mind incidentally that by the end of the decade Iran had become virtually self-sufficient in cotton yarn production, thanks to the fact that the Iranian Government endeavoured to develop its cotton textile industry in the 1930s. But she needed to rely heavily upon imported cotton piece-goods as her weaving section remained rather underdeveloped.[47]

In the mandated territories the 'open door' was guaranteed to all the League members and the United States. And although Iraq achieved formal independence from the United Kingdom in 1932, she undertook to give it to them for another ten years. When Japan formally left the League in March 1935 because of its non-recognition of Manchukuo, it rested entirely with the mandatory powers and the Iraqi Government to decide whether or not they should take discriminatory action against Japanese goods.

In the inter-war period there was no cotton-weaving mill of a modern type in Iraq, and the traditional local cotton textile industry was far from meeting the demand.[48] The Iraqi population was therefore heavily dependent upon imported cotton piece-goods, the bulk of which came from the United Kingdom and India up till the early 1930s. However, because of growing Japanese competition, by 1935 their combined share had declined to a mere 12 per cent as compared with Japan's 82.8 per cent.[49] Although Iraq was anxious to export large quantities of local products, particularly dates, Japan hardly bought anything from Iraq, a fact that irritated the Iraqi Government.[50] Also, the United Kingdom, which was by far the most important customer for Iraq 's primary commodities, pressed the government into introducing a certain measure against Japanese imports so that she could recover her former position at the expense of Japan.

After Japan's formal departure from the League, the Iraqi Government introduced an import-export ratio system, under which Japan was obliged to take Iraqi produce to the extent of 15 per cent by value of Japanese exports to the country. The ratio was raised to 25 per cent for the financial year 1937–8, and to 35 per cent on 1 April 1938.[51] However, these ratios were not only lower than those imposed on Japan by Turkey and Iran, but the Japanese were able to increase successfully their imports of Iraqi produce, thereby keeping the Iraqi market for Japanese textiles.[52] It should also be noted that, in accordance with the revised export guild law of 1934, the Japan Cotton Yarns and Piece Goods Export Guild for Africa and the Near East was formed among merchants in Japan in 1935.[53] In December of that year it began to levy 3 per cent (c.i.f. value) special control taxes on cotton yarns and piece-goods destined for the Iraqi market. The revenues from them were used as a subsidy for Iraqi exports to Japan.[54] This partly explains why the value of Iraqi exports to Japan rose steeply from 1,257,000 yen in 1935 to 9,028,000 yen in 1937 (see Table 3.3).

In Palestine Japan posed a far more serious threat to the Jewish textile (silk and rayon) manufacturers than to the mandatory power. In the market Japanese imports could still continue to enjoy mfn treatment by virtue of the Anglo-Japanese Commercial Treaties of 1911 and 1925, even after she formally left the League of Nations. The British authorities could have denounced them with respect to Palestine. Although the United States was not a League member, she was granted economic equality in the mandated territories on the grounds that she had been one of the Principal Allied and Associated Powers during World War I. The Japanese Government made use of this American precedent to claim for herself mfn rights in Palestine as well as in Syria.[55] Moreover, the British had to take into account such factors as the socio-political consequences of depriving the impoverished natives (mainly Arabs) of the cheapest source of supply, and a possible decline in customs revenues attendant on the growth of the local textile industries. In the event, Japanese imports remained free from discriminatory treatment in the market, as the British authorities decided not to denounce the commercial treaties.[56]

Since textiles constituted only a small portion of French imports in the Syrian market, the mandatory authorities were more concerned with the protection of the local textile industry against Japanese competition than looking after their own commercial interests. However, they adopted a policy of non-discrimination against Japan after March 1935. The reasons for it were similar to those of Palestine's.[57] Then, in July 1936 France concluded a commercial agreement with Japan concerning Syria, under which the Japanese agreed to increase their purchases of Syrian products in return for mfn treatment. The Japan Cotton Yarns and Piece Goods Export Guild for Africa and the Near East, and the Federation of Japan Silk and Rayon Textiles Guilds were then charged with the task of levying 3 per cent control taxes on their respective goods destined for the Syrian market, and used them to subsidise Syrian exports to Japan. Thanks partly to the measure, the value of the exports rose greatly from a mere 170 Syrian pounds in 1935 to 92,000 Syrian pounds in 1936 and 277,000 Syrian pounds in 1938. It should be noted, however, that the Japanese continued to enjoy huge trade surpluses in the second half of the decade.[58]

As seen above, there was much co-operation not only between Japanese government and business, but among the Japanese merchants with the single objective of getting round difficulties caused by the trade frictions. One would then wonder if oil played any part in Japan-Middle East trade relations in the pre-Pacific War period.

JAPAN AND MIDDLE EASTERN OIL PRIOR TO THE PACIFIC WAR

Japan and her colonies were not well endowed with oil, and coal and hydro-electric power were the major sources of energy in the country in the inter-war period. During the period from 1934 to 1936, coal, for example, accounted for 61 to 64 per cent of Japan's total primary energy supply, and hydro-electric power 17 to 18 per cent. As for oil, its share was a mere 9 to 10 per cent.[59] The Japanese imported crude oil largely from the United States mainly because of the low prices prevailing in California. American oil consisted of 58.3 per cent in value of the total Japanese oil imports (crude and partly refined) in 1930,62.4 per cent in 1935 and 79 per cent in 1939.[60] As the 1930s wore on, oil became more and more important for Japan because of the increased military demand. But, as her relations with the United States steadily deteriorated towards the end of the decade, the Japanese found it increasingly difficult to import it from the United States. They therefore needed to look for new sources of oil supply. Southeast Asia (particularly the Dutch East Indies) was of the greatest interest to Japan. But they also showed some interest in Middle Eastern oil. Indeed, according to Longrigg, certain quantities of Bahrain's crude oil were exported to Japan in the 1930s.[61] Moreover, in 1939 MTC made a purchase agreement for 200,000 tons of Iranian crude oil with the Anglo-Iranian Oil Company, but only 40,000 to 50,000 tons were actually shipped for Japan in 1941.[62]

In Saudi Arabia a major oilfield was discovered by the Californian-Arabian Standard Oil Company, a subsidiary of the Standard Oil Company of California (SOCAL) in March 1938. In May 1938 the Saudi Minister at London, Sheikh Hafiz Wahaba, went to Japan to attend an opening ceremony for the Tokyo mosque.[63] While he was in Tokyo the minister told Mr Inoue, the head of the Euro-Asian bureau in the Japanese Foreign Ministry, that the Saudi Government was ready to offer Japan oil concessions.[64] Then the Japanese Minister at Cairo, Masayuki Yokoyama, accompanied by two officers, T.Mitsuchi (a geologist) and E.Nakano (an interpreter of Arabic) went to Riyadh where a negotiation for an oil concession took place between the Japanese minister and Sheikh Yusuf Yassin (King ibn Saud's personal secretary) from 1 to 6 April 1939. It was resumed in Jeddah on the 13th of that month. In both cases no agreement was reached. According to K.S.Twitchell, although the Japanese terms were as 'tempting as they were fantastic', the Saudi authorities decided not to grant any concession to Japan because they took his advice that the Japanese were political, not commercial.[65] Is Twitchell's explanation accurate?

Initially the Saudis made a proposal to Japan for a concession for the areas around Dahna Desert and Wadi Sirhan as well as the Neutral Zone between Kuwait and Saudi Arabia. However, during the Saudi-Japanese talks in Jeddah they replaced the last one with the western half of Rub' al-Khali Desert. But the Japanese were interested only in the Neutral Zone, as they were convinced that there would be no oil in the other areas. Moreover, they were not permitted to travel around and make a preliminary survey of these areas. They were also asked to sign a concessionary agreement and pay the Saudi Government an initial concession fee of £200,000 in gold. The Japanese minister could simply not accept the Saudi terms and turned their offer down.[66]

At that time the Saudi Government was in debt of some £152,000 sterling to various foreign companies, including Messrs Gellatly, Hanky and Co. and H.St John Philby's Sharquieh Ltd. Moreover, the kingdom suffered poor harvests in the winters of 1936–7 and 1937–8 due to inadequate rainfall. Although the government received an advance payment of £50,000 sterling in gold from SOCAL in 1938, it was very short of money.[67] Under these circumstances the Saudis were anxious to obtain the best possible terms for the oil concessions since they were negotiating with other concession seekers. They therefore asked Yokoyama to keep confidential the areas and the terms discussed during the talks in

Riyadh and Jeddah.[68] Indeed, they were quick to make capital out of the abortive talks. According to Mosley, the king informed the Americans that he had turned down all the foreign concession seekers, 'even the Japanese who had made him a *colossal* offer' (italics are mine).[69] It is possible that Twitchell simply believed ibn Saud's story. In the event, SOCAL managed to obtain a new concession for the Neutral Zones between Saudi Arabia and Kuwait, and between Saudi Arabia and Iraq on 31 May 1939.

In September 1939 World War II broke out in Europe, but Japan's trade with the Middle East was not immediately disrupted. However, as soon as France collapsed in June 1940, Italy joined Germany by declaring war on the Allies, and the European war spread to the Middle East. Now the Suez Canal was closed to Japanese shipping, and only limited quantities of Japanese goods could be imported into various parts of the region through the port of Basra. Moreover, in 1941 Egypt, Iraq and Iran broke diplomatic relations with Japan. Under these circumstances, the representative offices of the Japanese trading companies had to close down one after another. MTC, for example, closed its offices at Beirut, Baghdad, Tehran and Alexandria during the period from September 1940 to October 1941.[70] Although Nippon Menka promoted its Alexandria office to the status of a branch in June 1940, it had to close it in July 1941.[71] One could therefore say that even if Japan had been granted the oil concession, she could not have made use of it during World War II. It is nevertheless remarkable that as early as 1939 Japan made such an attempt in Saudi Arabia which was not only far-distant from her, but with which she had no diplomatic relations.

JAPAN'S TRADE RELATIONS WITH THE MIDDLE EAST IN THE POST-WORLD WAR II PERIOD: LESSONS FROM THE PRE-OIL PERIOD?

In the immediate post-war years Japan was under the American occupation and preoccupied with the reconstruction of her economy. The foreign trade was under government control, and it was not until 1949 that the private foreign trade began to be permitted again. As soon as Japan recovered her full independence in April 1952 she tried to re-establish (or establish in some cases) diplomatic relations with various countries, including those of the Middle East. Because she had established economic and diplomatic relations with various Middle Eastern states in the inter-war period, she did not need to start everything from scratch.

During and after the war the mandated territories became independent. In 1941 Syria and Lebanon became nominally independent from France (and completely independent in 1946), while Transjordan (renamed Jordan in 1951) achieved independence from Britain in 1946. Also in 1948 with the ending of the British mandate for Palestine, Israel was established against the wishes of the Arabs, and became the first Middle Eastern state with which Japan established relations in May 1952. It was followed by others in the 1950s. Japan also concluded commercial agreements with such Middle Eastern states as Egypt, Turkey, Iraq and Iran. In December 1953 she signed, for example, a trade agreement with Egypt on a clearing basis. The Egyptian Government then agreed to remove the 40 per cent surtax imposed in 1935 on Japanese cotton and rayon piece-goods imports. However, Japan found it difficult to continue to conduct trade with the country through the clearing system. Under the revised agreement of November 1958 the Egyptians agreed to replace the clearing arrangement with the cash settlement basis.

In the meantime, Japan's pre-war shipping routes to the Middle East were re-established in the 1950s. In June 1952 NYK resumed its regular shipping operations on the Japan-Liverpool and Japan-Hamburg routes via the Suez Canal. And from December 1954 the ports of call included Jeddah. In February 1953 OSK also began its Japan-Europe route via the Suez, while in 1954 NYK resumed its regular shipping operations on the Middle East route with the ports of call at Beirut, Latakia (whose inclusion was in accordance with the Syro-Japanese trade arrangement of 1953), Piraeus and Istanbul on a regular basis.

Moreover, in 1951 the Japanese Government set up the Export-Import Bank of Japan financially to assist Japanese trading companies engaged in foreign trade. In the same year the Japan External Trade Organisation (JETRO) was also established for the promotion of Japan's export trade, particularly with its research on overseas markets.[72] Furthermore, in February 1953 Japan sent the first post-war economic mission to the Middle East, visiting Egypt, Lebanon, Turkey, Syria, Iraq, Iran, Jordan and Saudi Arabia mainly to study the market conditions of these countries. The mission was headed by NYK's president, Asao, and consisted of government officials as well as managers and section chiefs of several Japanese manufacturing and trading companies. After they returned to Japan, several Japanese trading companies began to keep trade representatives in major Middle Eastern cities, including Cairo and Beirut.[73] Since the trading companies had been engaged in commercial activities in the Middle East in the inter-war period, they could draw on their past experiences when they resumed their trade relations with it in the post-war period.

By the mid-1950s, most of the pre-war foundations of Japan's trade expansion into the Middle East had been laid again. Then what happened to her trade relations with the Middle Eastern states in the post-war period? Could she make full use of the pre-war experiences? In dealing with these questions, it is important to bear in mind that the circumstances concerning their trade relations have changed considerably. There were, for example, major changes in the structures of the Japanese import and export trade as well as in the importance of her trading partners between the pre-war and post-war periods. These changes were brought about by various factors, including the emergence of the *nouveau riche* oil-exporting countries, the import-substitution policies pursued by certain Middle Eastern states and the transformation of Japan *per se* from a newly-industrialised country with the textile industry as its leading export-oriented industry into a major industrial nation with the growth of oil-consuming heavy and chemical industries. Such major oil-exporting countries as Iran, Saudi Arabia and Kuwait emerged, not only as leading exporters to Japan, but as main importers from her, while the populous but oil-poor countries, notably Turkey and Egypt, became her minor trading partners.

Actually the region's share in total Japanese exports was 4.4 per cent in 1955, but declined to 3.5 per cent in 1965. In 1972 it was 3.6 per cent.[74] These figures were smaller than the 5 per cent of 1935. On the other hand, there was a meteoric rise in the value of Japan's imports from the region. The Middle East's share in total Japanese imports rose steeply from 2.2 per cent in 1935 to 7.6 per cent in 1955, 11.7 per cent in 1965 and 14.8 per cent in 1972.[75] And Japan continued to have large trade deficits with the region as a whole in the post-war period in sharp contrast with the 1930s. Prior to the first oil crisis, Japan did not have her heart and soul in expanding her export trade with the region as much as she had done in the pre-war period, largely because her major interests lay in Asia, North America and Europe. In the minds of the Japanese Government and business, the Middle East was not only far distant geographically from her but constituted a minor market for her manufactured goods. Moreover, Japan could easily import large quantities of crude oil at low costs from the region through the major international oil companies (hereafter, the 'majors').

It may be worthwhile to study briefly how much importance Japan attached to the Middle East through her official development assistance (ODA) policy. At least until the early 1970s it seems to have been largely designed to promote her export trade with the recipient countries rather than to meet their 'poverty need', and was largely Asian-centred.[76] The bulk of the ODA was bilateral, and comprised tied loans with which the recipients were obliged to buy goods and services only from Japan. The East and Southeast Asian countries were then (and are still) considered to be particularly important to Japan in terms of security, raw materials and markets for Japanese manufactures. In 1971 the cumulative value of Japanese government loans amounted to 11,336,000 million yen, of which over 92 per cent went to Asian countries whereas 4.7 per cent found their way into Central and South America, and the remainder into the Middle East and others.[77] In the same year, five Asian countries (namely, South Korea, Indonesia, Taiwan, Malaysia and the Philippines) accounted for 53.

6 per cent of the total, and there was no African or Middle Eastern state among the ten main recipients of the loans.[78] As far as the Japanese were concerned, the Middle East did not sufficiently qualify for their ODA.

Another factor for the smallness of Japanese exports was the relative decline in the share of textiles in the Middle East's total imports (see Table 3.5). The successful import-substitution took place as a result of the development of textile industries in several Middle Eastern states, including Egypt, Iran, Turkey, Syria and Israel. This is the main reason for the tiny share of textiles in Egypt's imports from Japan. It was 2.4 per cent in 1960 and 3.2 per cent in 1972.[79] There were large increases in the numbers of spindles and power looms in these states between 1953 and 1966. During this period the number of power looms (ordinary and automatic) rose from 14,049 to 25,208 in Egypt, from 2,786 to 18,400 in Iran, 498 to 4,289 in Israel, 1,651 to 7,850 in Syria and 6,150 (in 1952) to 14,850 (in 1959) in Turkey.[80] In the same years, the number of spindles rose greatly from 593, 000 to 1,477,000 in Egypt, 163,000 to 680,000 in Iran, 46,000 to 308,000 in Israel, 53,000 to 155,000 in Syria and 421,000 to 990,000 in Turkey.[81] It is therefore not surprising to find that, during the period from 1953 to 1965, the output of cotton piece-goods rose significantly from 39,500 metric tons to 79,900 metric tons in Egypt, 6,000 metric tons to 31,500 metric tons in Syria and 330 million metres (in 1955) to 781 million metres in Turkey.[82]

One should also note that such countries as Turkey, Egypt and Syria began to export their textile goods to other countries. In 1967 Egypt, for instance, exported some one-third of her cotton yam output and about 17 per cent of her cotton piece-goods production.[83] It is, however, true that Iraq imported large quantities of cheap cotton textiles from China and East European countries in the 1960s when she restricted the import of Japanese goods because of Japan's small purchases of Iraqi produce (other than crude oil).

As Table 3.5 shows, in 1960 textiles nevertheless comprised a considerable part of the imports from Japan of the major oil-exporting countries. Moreover, they remained as one of Japan's leading export items. This was largely because synthetic yarn and fabrics assumed major importance within the category of textiles at the expense of cotton textile goods in the second half of the 1960s. It should, however, be noted that by 1972 metal and metal products and machinery and equipment had assumed major proportions. The sharp growth in their shares can be explained by the large increase in the development projects as well as in the purchasing power of the consumers in the Gulf states. Also, these countries began to build up their fleet of crude-oil tankers and merchant ships. In 1970, for example, Kuwait imported 5,099 million yen worth of ships and boats while Iran paid 844 million yen for them.[84] It is equally important to note that the growth of heavy and chemical industries in Japan not only

Table 3.5 Structure of Japan's exports to the Middle East in 1960 and 1972 (percentages of total values)

		Textiles	*Chemicals*	*Metal & metal products*	*Machinery & equipment*
Egypt	1960	2.4	2.6	13.9	29.0
	1972	3.2	4.7	51.0	31.1
Iran	1960	48.6	0.0	9.4	26.8
	1972	17.5	2.9	33.3	33.0
Iraq	1960	60.6	0.2	3.8	17.8
	1972	8.5	3.2	35.4	47.0
Kuwait	1960	42.2	1.8	12.7	19.1
	1972	21.8	1.5	12.6	50.2
Saudi	1960	34.0	1.3	33.2	11.2
Arabia	1972	15.0	1.0	29.3	43.0

Sources: JETRO 1969, pp. 44, 75, 96, 127, 285; *Japan Statistical Yearbook* 1973–4, pp. 298-9.

created enormous demand for crude oil, but resulted in large quantities of their products for export. It is, however, true that up till the early 1970s Japan's share in the Middle East's total imports of heavy and chemical goods was comparatively small. This was largely because many of the large infrastructural and industrial projects in the region were undertaken by the well-established western engineering and construction companies which had traditional ties as well as high reputation. The bulk of the machinery and other industrial goods used were imported from their home countries.

As for Japan's import trade with the Middle East, in the pre-war period raw cotton accounted for the bulk of Japanese imports from the region. In the post-war period it remained the major export item for several oil-poor countries. In 1967, for instance, raw cotton constituted 93.1 percent of Egypt's total exports to Japan, 41.5 percent of Turkey's and 98.1 per cent of Syria's.[85] But with the growth of heavy and chemical industries in Japan, it was not the raw cotton, but crude oil which became by far the most important export of the Middle East to Japan. In 1967, for example, mineral fuels (mainly crude oil) accounted for 98.2 per cent of Iran's total exports to Japan, 99.2 per cent of Kuwait's, 99.6 per cent of Saudi Arabia's and 97.8 per cent of Iraq's.[86] The Japanese trading companies were nevertheless not in a position to deal in large quantities of Middle Eastern oil. This was mainly because the refining companies in Japan were obliged to buy crude oil by long-term contracts from the majors which continued to provide them with financial and technical assistance for the development and expansion in the 1950s and 1960s.[87]

As noted earlier, the Japanese Government made an abortive attempt to obtain an oil concession from Saudi Arabia in 1939. In the late 1950s Taro Yamashita, a Japanese entrepreneur successfully signed with the Saudi and Kuwaiti Governments separate agreements for oil exploration rights in the off-shore area of the Neutral Zone between Saudi Arabia and Kuwait. In 1958 he set up the Arabian Oil Company (AOC) with a total capital of $183 million, of which 10 per cent each was contributed by the Saudi and Kuwaiti Governments and the remaining 80 per cent by a consortium of Japanese companies. At that time the 50–50 profit-sharing formula was common between the oil-producing countries and the majors. But it was a 56–44 ratio between Saudi Arabia and Japan, and a 57–43 ratio between Kuwait and Japan.[88] In January 1961 the company discovered oil in the Khafji field. However, the Japanese Ministry of International Trade and Industry (MITI) did not allow AOC to engage in downstream activities, but made it necessary for all the refining companies in Japan to purchase Khafji crude oil on a basis in proportion to their refining capacities. At any rate, Yamashita himself was content with upstream production.[89]

In the late 1950s and the first half of the 1960s the major aim of MITI was to keep the costs of refined oil as low as possible for Japan's heavy and chemical industries, but not to provide the private sector with financial and technical assistance for risky and expensive oil exploration ventures abroad. This was largely because, as there was a glut of oil in the world market, the oil refiners in Japan could purchase low-cost crude oil from the majors without difficulty. Indeed, the imported oil prices in the country declined sharply during the period. Taking 1955 as 100, the index price fell to 85.7 in 1960, 71.1 in 1965 and 64.8 in 1970. It then rose to 89.5 in 1973, but was still lower than that in 1955.[90] Cheap oil undoubtedly played a great role in Japan's so-called 'economic miracle' in the 1950s and 1960s. It is therefore not surprising to find that in 1965 the crude oil, supplied by the foreign oil companies, accounted for some 70 per cent of Japan's total imports, while the Khafji oil together with the oil produced by another Japanese oil company, the North Sumatra Oil Co. (set up in 1960) was responsible for a mere 12.9 per cent.[91] It was only in 1967 that the Japanese Government at long last established the Japan Petroleum Development Corporation with the main purpose of giving Japanese companies technical and financial assistance for their overseas oil exploration ventures. It was 100 per cent government-financed, and came under the control of MITI. By the first oil crisis, there were more than fifty Japanese oil ventures abroad.[92] But the Arabian Oil Company and North Sumatra Oil Co. remained the only two major Japanese companies supplying Japan with Japanese-produced crude oil.

In the late 1960s and early 1970s the oil-producing Middle Eastern states began to nationalise or participate in the oil industry. And this made it possible for Japan to import crude oil direct from some of them in the early 1970s. In 1969 the Saudi Government awarded Chiyoda Chemical Engineering and Construction Company contracts for the expansion of the Jeddah oil refinery and the construction of an oil refinery at Riyadh at the total cost of $127 million. Under the contract agreements with Petromin (General Petroleum and Mineral Organisation), the costs were paid to the Japanese company in kind (that is, crude oil). This was the first time that a Japanese company received payment in crude oil for construction work abroad.[93] Moreover, in 1971 MTC's iron and steel goods were bartered for Iraqi and Saudi Arabian oil. Furthermore, as the Saudi Government began to export oil to foreign countries on a DD (direct deal) basis in the same year, Japanese trading companies were actively engaged in importing such oil, and selling it to Japanese oil-refining companies. In September 1973 MTC also managed to import crude oil direct from the Iraq National Oil Company for Mitsubishi Oil Co.[94] Thus, the Japanese trading companies were beginning to import crude oil direct from certain Middle Eastern states in early 1973.

However, it was the first oil crisis of October 1973 which caused the Japanese government-business co-operation to be really necessary to cope with difficulty. In that month the Organisation of Arab Petroleum Exporting Countries (OAPEC) classified Japan as an ‘unfriendly’ nation as regards the Arab cause in the fourth Middle East war, and announced restrictions on its members’ crude-oil exports to her. In December of that year, however, Japan was reclassified as a ‘friendly nation’ and was removed from the embargo list after she endorsed OAPEC’s position. At the end of 1973 and in early 1974 the Japanese Government despatched several special envoys in quick succession to Arab countries, including Kuwait and Saudi Arabia, with the main purpose of seeking favour from the oil-producing states for the steady supply of crude oil in exchange for technical and financial assistance for the economic development of these countries. The total amount of the Japanese Government aid and loans offered to the region by the envoys amounted to some $3 billion, of which $1 billion each went to Iran and Iraq, and $280 million to Egypt.[95] Then, a number of Arab countries also sent missions to seek Japanese technical and financial co-operation for their development programmes. They seem to have favoured the Asian economic power partly because, unlike other major industrial states, Japan has kept herself away from political involvement in the region. Meanwhile, in late 1973 the Japan-Saudi Arabia Co-operation Association was formed with the chairman of the Arabian Oil Company as president, with a view to extending bilateral cooperation. Later other Japanese associations related to the Middle Eastern states came into existence with similar purposes. They, however, had their predecessors in the pre-war period such as the Turco-Japanese Association of Osaka, and the Cotton Yarns and Piece-goods Export Guild for Africa and the Near East.

Now the Japanese Government's successful diplomacy facilitated the large Japanese companies to be able to undertake industrial projects in the region. Since they were willing to accept payments in crude oil, they were in a better position to be awarded contracts by the Middle Eastern states for development projects in the face of competition from western companies. The increase in the number of the contracts given to Japanese companies was accompanied by the sharp rise in the value of imports from Japan, largely because the capital goods and intermediate goods used in the various projects were brought largely from the country. There were actually many cases of Japanese industrial plant exports to the region. Soon Japan emerged as a major exporter to the Middle East. In 1970 she was responsible for 10 per cent of the Middle East's total imports, and ranked fifth as exporter to the region, but her share rose to 15 per cent in 1975 and 18 per cent in 1981 when she ranked first.[96] Moreover, the share of the region in Japan's total exports rose steeply from some 3 per cent to 11 per cent and then to 12 per cent in the same years.[97] It is important to bear in mind that her great commercial success was attained partly because of the foundations laid in the preceding decades.

CONCLUDING REMARKS

Japan's pre-war commercial success in the Middle East could be attributed not only to the cheapness of her goods and the circumstances of the Depression, but to the role of the Japanese Government in laying the foundations of her trade expansion. Another factor was the high degree of government-business co-operation in promoting the country's export trade and coping with difficulty.

However, in the post-war period, both the Japanese business and government did not show great interests in developing further their pre-war Middle Eastern relations, as they attached greater importance to other regions such as Southeast Asia. Actually, as early as 1939 Japan had made an abortive attempt at obtaining an oil concession from Saudi Arabia, while in the late 1950s AOC was set up to produce crude oil in the Neutral Zone between Kuwait and Saudi Arabia. However, the Japanese Government did not give the Japanese business full support for overseas oil exploration ventures in the post-war period. It preferred the 'cheap oil' provided by the majors, and did not apparently see much insecurity for relying heavily upon the majors for the vital commodity despite the fact that Japan had lost the war in the Pacific War partly because of her inability to secure sufficient quantities of it. This also meant that although the bulk of Middle Eastern exports to Japan comprised crude oil, the Japanese trading companies were largely excluded from the oil trade.

It was the first oil crisis which acted as the catalyst for causing the major change in the Japanese energy and Middle Eastern policies as well as bringing back the pre-war government-business co-operation in promoting the export trade and weathering difficulties. Indeed, the process of Japan's trade expansion into the Middle East of the 1930s was thus resumed in earnest and accelerated in the post-1973 period.

Chapter 4
The changing structure of oil connections

Tetsuo Hamauzu

INTRODUCTION

The purpose of this chapter is to present a historical review of Japanese oil policy since 1945, particularly with reference to oil imports from the Middle East. Japan has developed its energy-intensive industries such as petrochemicals, iron and steel, cement, paper, aluminium and refining, with a heavy dependence on imported oil, being the second largest oil importer after the US. After two decades, since the first oil crisis in 1973–4, of oil source diversification, oil replacement by other energy resources and energy saving in various sectors, Japan still depends on the Middle East for about 70 per cent of its oil imports. Japan will continue to rely on the Middle East for its major oil supply inasmuch as the Japanese economy consumes a huge amount of energy for growth and there is no adequate alternative source of supply. The geographical constraint on Japan's oil supply is inescapable.

Japan's approach to countries with energy resources, particularly to the Middle East, is unique in many ways. In most western countries, major oil companies or national oil companies such as ENI (Ente Nationale Idrocaburi) in Italy and CFP (Compagnie Française des Pètroles) in France have been in charge of overseas oil development and oil imports for a very long time. There is no big player in the oil business in Japan, though Japan imports more than five million barrels a day of crude and petroleum products. With a few exceptions the activities of trading houses such as Mitsubishi and Mitsui are more conspicuous not only in oil imports but also in overseas oil and gas development. The Ministry of International Trade and Industry (MITI) is well known for its success in fostering a variety of Japanese industries; however, as far as the oil industry is concerned, there is no firm worthy of the name of national champion and oil companies have not played a major role in either oil and gas developments or imports. In sharp contrast to the multinationalisation of most Japanese manufacturing companies, no oil firm has even a single refinery or filling station outside Japanese territory. Japanese oil firms are virtually refiners, and their activities are concentrated within Japan at a time of globalisation of the Japanese economy.

Before 1973–4, major international oil companies supplied more than 70 per cent of Japan's oil imports. All seven majors were suppliers of crude oil to Japan, including British Petroleum (BP) which had no downstream facilities in Japan at all. Under the international oil system controlled by the major oil companies, Japanese affiliates had relied almost 100 per cent on mother companies for crude oil supply, and even non-affiliates imported most of their needs through majors, as the volume supplied by independent sources was very limited. Before the first oil crisis in 1973–4 MITI had implemented a variety of measures to weaken market control by the majors in order to get cheaper oil. As a part of its efforts to obtain cheap oil, MITI financed oil exploration and production by Japanese companies. The initiatives and leadership in overseas oil exploration mainly came from leaders of the Japanese business community representing a wide range of interests. They had a keen interest in acquiring Japan's own oil supply sources, since Japanese non-affiliate refiners lacked both financial resources to invest in risky businesses, and capable and far-sighted business leaders who could organise overseas oil development. No oil firms are included among the founding members of the Arabian Oil Company, which is the first and most successful Japanese overseas oil business. This fact exemplifies the inactivity of Japanese refiners in oil development abroad. The construction of its production facilities was mainly financed by the Japan Export Import Bank. The Arabian Oil Company set the pattern for future overseas oil exploration and development, in which non-oil companies took the leadership and the government contributed to the finance. Government funds were poured, not only into oil exploration by Japanese firms, but also into joint industrial projects with oil producers such as the Iran Japan Petrochemical Project (IJPC) in Iran and two petrochemical projects in Saudi Arabia. The purpose of the investments was to encourage stable oil supplies from these two countries and greater economic ties with them.

A notable feature of Japanese energy imports after the first oil shock is the increasing role of trading houses. When oil producers began to sell their equity crudes, which they got through their participation in oil concessions, directly to importers, Japanese trading houses jumped into a new business which had been virtually denied to them under the concession system. The first buyer of Oman's direct third-party oil was a Japanese trading house, C.Itoh and Company. It was also a Japanese company, not a trading, but a shipping one, that purchased Abu Dhabi's first direct selling of their equity oil. When an oil crisis erupted in the wake of the Arab-Israeli war in October 1974, major and other international oil companies drastically cut back supplies to Japanese non-affiliate refiners; the cutbacks were made up mainly by trading houses' direct imports from producers. They established their status as oil importers in Japan during the first oil crisis in 1973–4.

It is also trading houses that have made Japan the largest importer of liquefied national gas (LNG) in the world. They invested in costly and time-consuming LNG projects in Alaska, Abu Dhabi, Brunei, Indonesia, Malaysia and Australia to import natural gas to Japan. LNG has grown to be the third most important energy source behind only oil and nuclear. Not a single oil company is involved in this expanding LNG business. Trading houses are also well known as major players in oil futures and forward markets. However, their performance seems rather poor, as they are in the habit of taking a long position in volatile oil markets. It can be said that their curious behaviour in oil trading partly reflects the potential fears of the Japanese that oil prices might rise at any time.

The uniqueness of the Japanese approach to overseas oil procurement, in particular to Middle East oil will be the focus of the following discussion. The approach results from the structural weaknesses of the Japanese oil industry:

(a) Japan has become a big oil consumer without having adequate oil supply resources of its own either at home or abroad;
(b) the lack of a large, integrated oil company which can supply a substantial part of the oil required by the Japanese economy.

These two observations are too superficial and it is necessary to substantiate and expand them by historical, political and economic evidence concerning the Japanese oil industry and government policies relating to it. In the context of the Japanese economy, government policy is decisively important. The government's industrial policy is not always useful and effective for all of industry and an unsuccessful case in point is the oil industry.

The discussion is divided into four sections. The next section examines the oil policies pursued by the General Headquarters of the Allied Powers in occupied Japan and by the Japanese Government in the period from Japan's recovery of sovereignty in June 1951 to the first oil crisis in 1973–4. There follows an examination on how Japan coped with the two oil crises and made up for the supply cuts of major oil companies.

JAPAN'S OIL POLICIES BEFORE THE FIRST OIL CRISIS

Control of the Japanese market by Majors

Japan as the loser of World War II was under occupation by the allied powers for five and a half years before its full sovereignty was restored on 1 June 1951. Throughout the occupation period the General Headquarters, led by General Douglas MacArthur, guided and supervised Japan's political, economic and social reforms for democratisation. All Japanese industrial activities and the government's industrial policies were closely supervised by various sections of General Headquarters, and the oil industry was under the control of the Area Petroleum Officer of G-4 Section, who was 'charged with full responsibility for all phases of petroleum activities within Japan and Korea as these may come within the cognizance of this Headquarters'.[1] He had life-and-death authority over the oil industry in Japan. In the years after the war crude oil imports were banned by the allied powers and petroleum products were allowed to be imported only through the US Army for the Petroleum Distribution Control Company (Sekiyu Haiky Tosei Kaisha), later renamed Petroleum Distribution Corporation (Sekiyu Haiky Kōdan). The Area Petroleum Officer, who was a military man, was assisted by a group of oil advisers 'formed as a civilian organization within the G-4 Section of General Headquarters in Occupied Japan'.[2] 'These advisers were recruited from the personnel of major United States and foreign oil companies, having pre-war interests in Japan.'[3]

The advisers studied and commented on 'problems affecting all phases of petroleum as it pertained to Japan, when submitted to the Area Petroleum Officer'.[4] In other words, they were involved in all the preparatory works for decision-making on oil issues by the headquarters. It is hard to evaluate the extent and manner of their influence on particular decisions, but the fact that crucial decisions concerning the structure of the oil industry were made during the occupation period is important. For example, they prepared a study report 'recommending the complete elimination of the Japanese Government from the petroleum sector and the return of the industry to private industry'.[5] The General Headquarters responded by privatising the marketing of petroleum products, abolishing the Petroleum Distribution Corporation, the successor of Sekiyu Haiky Tosei Kaisha, in 1951. This ended its ten-year history since June 1939 as the sole procurer and distributor of petroleum products and the government lost any chance of a foothold to create a large-scale national oil company. It had to start from scratch when it later decided to join the oil business.

General Headquarters favoured particular foreign oil companies, that is, Caltex, Shell and Standard Vacuum, issuing in July 1948 a licence to supply petroleum products to foreign vessels, commercial aircraft and foreigners in advance of the privatisation of the distribution of petroleum products on 1 April 1949. Otherwise these three firms could not have met the specified qualifications for a primary marketer, such as 'having terminal storage, secondary or up-country storage, and a dealer or subdealer consumer distribution arrangement'[6] and a source of supply. Initially ten companies, including three foreign companies, had qualified and later three Japanese companies were added to the qualified and licensed primary marketers. The initial monthly allocation quota to the ten companies favoured tremendously the three foreign companies, assigning 73 per cent to them, compared to a market share of around 50 per cent, allocated by the sales agreements in the 1930s.[7] Non-affiliates and MITI resented this 'unfair' decision. In the course of time, however, non-affiliates increased their market share as the scheme to reallocate quotas, frequently based on actual sales volume, had accelerated marketing competition between the primary marketers (see Table 4.1).

There is hardly any major industry in Japan where foreign companies are so prevalent in terms of share of capacity and market share as the oil refining industry. Their participation in the industry on a massive scale was also authorised by General Headquarters while Japan was under the occupation of the allied powers. As the Pacific coast refineries, which used to process imported crudes, had been closed since 1945 by order of General Headquarters, their plant was old and their processing methods were out of date. They had to seek financial and technical aid as well as a crude-oil supply from international oil companies for the resumption of imported crudes. All eight refiners made collaboration agreements of various types with foreign oil companies immediately before or in the few years after the resumption of operation of the refineries on the Pacific coast in January 1951. Standard Vacuum, Shell and Caltex had established their affiliates in the form of joint ventures and Getty (Tidewater) restored its pre-war relationship with Mitsubishi Oil. Thus, in addition to the three companies who had interests before the war, Caltex newly-joined in the Japanese oil market. Caltex seemed to have acquired the Japanese market as a *quid pro quo* for sharing Saudi oil concessions with Exxon and Mobil.[8] Japanese refiners such as Maruzen, Daikyō and Nippon Mining, which had not accepted foreign capital participation, approached foreign banks to finance the building of new refineries and tankers. In the late 1950s these refiners also borrowed funds from major oil companies at lower interest rates for the modernisation of their refining facilities, in exchange for long-term crude-import contracts.[9] Whether an affiliate or not, all Japanese refiners imported crude oil through foreign oil companies, mainly through majors. In a so-called 'closed' economy like Japan, six major oil companies had their own outlets and furthermore supplied crudes to all the non-

Table 4.1 Market share of 13 primary marketers

Company	*1950*	*1951*	*1952*	*1953*
Nippon Oil / Caltex	29.48	27.92	27.89	25.23
Standard Vacuum	14.61	14.83	12.76	12.01
Shell	12.69	10.76	10.95	10.04
Shōwa Oil	6.85	7.09	7.03	6.25
Nippon Mining	3.39	3.26	2.11	1.80
Idemitsu Oil	8.59	7.38	8.63	10.58
Mitsubishi Oil	6.48	7.13	7.64	9.88
General Bussan	7.74	7.79	8.05	8.84
Nihon Gyomō Sengu	1.27	1.37	1.55	1.93
Maruzen Oil	6.50	9.28	9.04	8.46
Daikyō Oil	1.56	2.91	4.34	4.97
Koa Oil	1.11	0.28	0.01	0.01
Total	100.00	100.00	100.00	100.00

Source: Ministry of Trade and Industry, *Current Situation of Oil Industry 1962.*
Note: Sales volume includes gasoline, kerosene, fuel oil, lubricants, paraffin, grease and asphalt. Due to rounding the total figure for 1950 slightly exceeds 100 per cent.

affiliates, accounting for more than 70 per cent of Japanese oil demand. The oil industry in Japan was therefore quite different from other industries.

Foreign exchange quota scheme for oil

After 1951 the Japanese oil industry developed within the industrial framework built up during the period of occupation. The remarkable expansion of oil consumption and refining capacity in the 1950s and 1960s had rather strengthened the framework. MITI's oil policy, aimed at weakening the power of major oil companies to control the market, had been prosecuted within this industrial framework (see Table 4.2).

Japan's oil consumption, excluding liquid petroleum gas (LPG), increased dramatically from a mere 4,400 barrels per day (b/d) in 1945 to 34,500 b/d in 1950, 509,000 b/d in 1960 and 4 million b/d in 1970 and continued to expand. Energy-intensive industries such as iron and steel, petrochemicals, aluminium refining, cement, as well as paper and pulp led

Table 4.2 Imports of crude oil by origin

BPSD					
				Desulphurisation	
Year end	*Crude distillation*	*Catalytic reforming*	*Catalytic cracking*	*Direct*	*Indirect*
1950	90,000	–	–	–	–
1955	285,450	10,300	12,100	–	–
1960	743,490	41,450	48,800	–	–
1965	2,057,640	198,500	79,100	–	–
1970	3,668,800	358,800	175,600	112,760	256,000
1975	5,860,360	593,800	329,100	289,000	910,500
1980	5,940,360	578,300	358,600	459,000	981,700
1985	5,940,350	571,500	441,000	459,000	928,200
March 1990	4,551,000	591,900	649,600	414,500	166,080

Source: Petroleum Association of Japan.
Notes:
Calculated from annual figures in kl.
* The figures for the Middle East refer to the total of all the countries in parentheses.
** Bahrain

high economic growth in Japan and oil consumption reached 5.46 m b/d in 1973. Japan made full use of abundant, cheap oil for its industrial development, paying little serious attention to the security of oil supply. If oil imports, highly dependent on the Middle East, had been restrained for reasons of national security, it is doubtful whether Japan could have built up so many energy-intensive industries, or could have realised an economic miracle. The closure of the Suez Canal in 1956 and 1967, which caused a substantial rise in oil prices in Western Europe owing to longer haulage, did not warn the Japanese of the danger of depending on the Middle East as the mainstay of their energy supply. They had not learnt any lessons from the European experience during the two Suez wars, such as the necessity of maintaining a strategic stockpile. They simply believed that disruption of oil supplies to Japan was a remote possibility. Massive oil consumption brought air and water pollution to the whole of Japan, and in some industrial areas bronchitis was identified as an industrial disease. Even severe industrial pollution did not slow down the rapid growth of oil consumption in general, and particularly in industry, before the jump in oil prices in 1973.

MITI's oil refining policy

It is not an easy task to summarise Japan's oil policy, as the coverage of the policy is so wide and intricate. MITI intervened in every aspect of industrial activity, directly and indirectly and in the first half of the period (1951–62), before the first oil crisis, it was mainly concerned with the domestic downstream aspect of the industry. The most effective instrument of oil policy implementation was the allocation of foreign exchange to importers for crude and products imports. At that time, foreign exchange was one of the most valuable and scarce resources in Japan and all imports, including oil, were under a foreign exchange quota scheme.

There follows an analysis by MITI itself of the targets and results of operations of the foreign exchange quota for oil:[10]

1. Demand and supply balancing

MITI prepared a foreign exchange quota for oil every six months and issued a coupon to importers. The quota included foreign exchange for importing crude and petroleum products in accordance with an oil demand and supply forecast that also took into consideration the rationalisation programme of the coal industry and domestic coal production. Consequently, the quota scheme contributed to the control of oil demand and supply and the prevention of severe competition between the oil and coal industries, with the protection and programmed rationalisation of the coal industry.

2. Promotion of onshore refining

Forecasts for petroleum products were based on the condition that Japan in principle imported crudes and processed them at home. Product imports were allowed only for deficient items. The foreign exchange quota for oil was in principle allocated on the basis of actual imports in the previous term and was not allocated to new applicants. This measure restricted the increase of refiners and effectively reduced refining costs through the greater capacity of each refinery.

3. Other guidelines

As this quota scheme fully controlled the import of crudes and products, MITI could block licensing for a new plant against this backdrop until the operating ratios of existing plant reached certain levels and, consequently, it worked towards the constraint of surplus refining capacity with the following results:

(a) After 1955 MITI adopted actual imported volumes as a basis for allocating foreign exchange and consequently brought down free on board (f.o.b.) prices of imported crudes.
(b) It also assured the smooth intake by refiners of high-cost domestic and overseas crudes developed by Japanese companies.
(c) It fostered petrochemical complexes, favouring quotas for complex refineries.

The foreign exchange quota scheme, which had lasted for ten years, created not only favourable results but also resulted in many short-comings. For example, refiners competed for sales turnover and greater refining capacity in order to have a greater foreign exchange quota. When competition between refiners depressed prices too low, MITI introduced standard prices and production cuts to salvage the product market, so that refiners came to depend on MITI for administrative relief measures when in difficulty.

MITI had had a keen interest in cutting down imported oil prices and had encouraged the import of cheaper oil giving cheaper importers an extra foreign exchange quota in the next term. Crude-oil suppliers cut prices to increase sales in the large Japanese market. 'Until 1962, crude prices to Japanese buyers were probably the lowest in the world.'[11]

This scheme induced non-affiliates to seek cheaper supply sources other than major oil companies. Though the amount was small in total oil imports, Idemitsu Kosan imported Iranian 'hot oil' in 1953 and non-affiliates including Idemitsu had imported Soviet crudes. This scheme on the one hand contributed to lower unit crude costs and on the other hand accelerated the import of heavy crudes which were cheaper and created an imbalance in product supply and demand. Soon MITI watered down the premium on cheap oil with the addition of actual production values.

Approval of new capacity by MITI

Japan abolished all foreign exchange quota schemes, including those for oil, in October 1962, as the international community's pressure on the elimination of trade restrictions intensified. This did not imply the slackening of MITI's grip on the refining industry. In place of the foreign exchange quota scheme, it enacted the Oil Industry Law that authorised MITI to make and implement a comprehensive energy policy, including continuous controls on the refining industry. In more concrete terms, MITI had powers of making plans for the demand and supply of oil, licensing the expansion of refining capacity, in case of necessity, setting standard prices for products, providing financial assistance for oil exploration and

Table 4.3 Crude-oil refining capacity

BPSD					
				Desulphurisation	
Year end	*Crude distillation*	*Catalytic reforming*	*Catalytic cracking*	*Direct*	*Indirect*
1950	90,000	–	–	–	–
1955	285,450	10,300	12,100	–	–
1960	743,490	41,450	48,800	–	–
1965	2,057,640	198,500	79,100	–	–
1970	3,668,800	358,800	175,600	112,760	256,000
1975	5,860,360	593,800	329,100	289,000	910,500
1980	5,940,360	578,300	358,600	459,000	981,700
1985	5,940,350	571,500	441,000	459,000	928,200
March 1990	4,551,000	591,900	649,600	414,500	166,080

Source: Petroleum Association of Japan.

development, and allocating crudes developed by Japanese companies to refiners. Big industrial oil consumers including iron and steel, electric utilities, town gas and cement strongly opposed the Law, fearing that MITI might extend bureaucratic control of them through oil policies. In order to draw wider support for this Law, MITI stressed that it was an essential instrument to implement comprehensive energy policies to enhance Japan's oil independence and fully exploited the general public's fears of a major oil cartel (see Table 4.3).[12]

This Law was passed by the Diet on 5 May 1962 with the overwhelming support of both ruling and opposition parties. As for oil, Japan's economic nationalism was extremely strong and most of the people were dazzled by the target of a 30 per cent supply of the total demand by Japanese-owned sources.

For eleven years from 1962 to 1973, when the first oil crisis erupted, Japan 's oil demand increased by 4.5 m b/d. As oil was abundant and oil supplies were dominated by majors, MITI's oil policies concentrated on expanding non-affiliates market share in oil imports and oil business at home, and lowering imported crude prices. MITI allocated incremental oil-refining capacity, not only to existing refiners, but also to new entrants. Fourteen new refiners entered into the business during this period. Like the foreign exchange quota scheme, licensing for capacity was used for many administrative purposes deviating from the original intention of healthy development of the refining industry. Since the petrochemical industry was designated as a strategic industry, new refineries meant for petrochemical complexes were given a high priority in licensing for new capacity. MITI, which was eager to foster strong non-affiliate refiners, favoured capacity licensing to Kyodo Oil, the merged company of small refiners, in accordance with its recommen-dations. It also used its powers to have all refiners accept overseas crudes developed by Japanese companies, in particular high sulphur Khafji crude. This power was effectively exercised to cut the price of crudes supplied by majors. In the middle of the 1960s the majors' crude prices to Japan were around 10 cents per barrel more expensive than free market oil. MITI contended that the average f.o.b. price of crude to Japan could be cut by about 10 cents a barrel if refiners bought a large share in the open market.[13] MITI took concrete measures to realise a price cut of 10 cents a barrel. In granting government approval for foreign loans to refiners it asked foreign suppliers to cut per dollar imports tied to loans. With regard to foreign affiliates' imports, it proposed that 'supplies "tied" to foreign capital or loans should be "voluntarily" limited to no more than the foreign equity ownership in the Japanese company, meaning a maximum of 50 per cent'.[14] For the majors, the Japanese market was important as a massive outlet for their crude, so they accepted MITI's offer in exchange for new capacity approval. Their concession was limited to incremental supplies, covering only the increase in refining capacity (see Tables 4.4 and 4.5).

MITI released monthly average prices for every grade of crude imports so that importers could have crude price information for bargaining. This unique measure[15] benefited not only Japanese but also other Asian importers, giving them a foothold for price negotiation with foreign suppliers. The extent of price competition in the oil market under the international oil system dominated by the majors is a controversial issue and those scholars who strongly argued for the existence of price competition such as Neil Jacoby made use of the f.o.b. oil prices released by MITI as supporting evidence.[16] From the viewpoint of Japanese importers, price competition between the majors was virtually non-existent. MITI's struggle for lower crude prices was not frustrated until Gulf producers succeeded in making the new higher tax-price agreement with majors. When members of the Iranian Consortium raised the price of Iranian crudes to Japan, the president of the Petroleum Association of Japan, an affiliate of MITI, sent a cable to the chairman of National Iranian Oil Company protesting against the sudden price increase without notice.[17] When international oil companies accepted the tax-price hike of the producers, Japanese refiners as a group fought to hold down the full transfer of the increased cost to them, but it did not take long before their resistance, backed by MITI, turned out to be an 'exercise in futility'.[18] MITI's power over capacity expansion was useless for coping with a series of Organisation of Petroleum Exporting Countries (OPEC) price rises which began in 1970.

Japan had built up the third largest oil refining industry in the world as early as the first half of the 1960s and development of the industry in terms of capacity continued through the 1970s. The expansion of capacity, however, did not go with the financial strengthening of the industry.

In addition to heavy external borrowing to finance business expansion, profit margins of refiner-marketers had been slim owing to a chronically weak product market and their performance was characterised by the phrase of 'profitless growth'. Non-affiliates did not have enough cash flow to invest continuously in upstream activities. Some refiners had stakes in producing fields abroad and at home but the amount of their own crude was trivial compared with their demand. No refiners succeeded in building up an integrated structure in Japan.

Overseas oil development

Some Japanese firms had a keen interest in overseas oil development, and wanted to acquire their own oil supply sources with the rapid increase of Japan's oil imports, though Japan had little experience in oil exploration activities abroad before World War II. An adventurous businessman, Mr Tarō Yamashita, backed by Japanese business leaders, acquired an oil concession offshore in the Neutral Zone between Saudi Arabia and Kuwait, and his company, the Arabian Oil Company, fortun-ately found substantial oil in January 1960. The oil find in the first concession abroad after World War II aroused the interest of the Japanese for overseas oil developments and Japan launched in earnest on oil exploration abroad in the 1960s.

Pioneering work in Indonesia started in 1960, establishing the North Sumatra Oil Company (NOSODECO) with the participation of fifty-two corporate investors including the government-sponsored Overseas Oil Development Company, Overseas Economic Co-operation Fund, electric utilities, iron and steel companies and so on, in order to restore and develop North Sumatran oilfields. The company made an agreement with the Indonesian Government that it would supply the plant, materials and services that were required for the project in exchange for ten years' supply of produced oil. It brought in Indonesian oil to Japan until the agreement expired. This venture paved the way for oil exploration and development by the Japanese in Indonesia.[19] MITI provided the Overseas Oil Development Company with additional funds of 0.2 billion yen in 1962,0. 7 billion yen in 1965 and 2 billion yen in 1966, which enabled it to invest in oil exploration activities by private companies. The fund was used for oil prospecting in Sabah, the East Kalimantan coast and offshore North Sumatra. Two one-hundred-per cent private oil exploration and development companies were incorporated on the initiative of business leaders.

Table 4.4 Crude suppliers to Japan's refiners, FY 1968–9

Affiliated companies/suppliers	*Per cent of total*	*'000 barrels*
Nippon Petroleum Refining (50 per cent Caltex)		*76,931.4*
Caltex	99.9	76,844.6
N. Sumatra Oil Development	0.1	86.7
Koa Oil (50 per cent Caltex)		*53,560.6*
Caltex	85.6	45,873.3
Arabian Oil Co.	14.4	7,687.4
Nippon Oil (Caltex Assoc.)		*35,557.5*
Caltex	70.1	24,933.8
Arabian Oil Co.	27.1	9,637.7
N. Sumatra Oil Development	1.5	518.8
Far East Oil Trading	1.3	467.2
Tōa Nenryō (25 per cent Esso, 25 per cent Mobil)		*97,810.3*
Mobil	48.7	47,612.4
Esso	39.9	39,009.4
Arabian Oil Co.	10.9	10,683.1
N. Sumatra Oil Development	0.5	505.4
General Oil (50 per cent Esso)		*41,403.8*
Esso	85.2	35,284.3
Arabian Oil Co.	13.3	5,497.1
N. Sumatra Oil Development	0.6	252.0
Nichimo Oil (70 per cent Tōa Nenryō)		*17,150.0*
Esso	45.5	7,806.0
Mobil	41.5	7,111.3
Arabian Oil Co.	13.0	2,232.7
Kyokutō Oil (50 per cent Mobil)		*11,145.4*
Mobil	45.8	5,106.8
Arabian Oil Co.	16.6	1,855.0
Shōwa Oil (50 per cent Shell)		*34,605.9*
Shell	91.1	31,529.3
Arabian Oil Co.	8.9	3,076.6
Shōwa Yokkaichi (25 per cent Shell, 50 per cent Showa)		*52,227.4*
Shell	82.3	42,986.9
Arabian Oil Co.	17.7	9,240.5

Affiliated companies/suppliers	*Per cent of total*	*'000 barrels*
Nihon Seiro (70 per cent Showa)		755.5
Shell	100.0	755.5
Mitsubishi Oil (48.7 per cent Getty)		*74,672.3*
Getty	61.6	46,032.9
Arabian Oil Co.	12.0	8,981.4
Far East Oil Trading	4.1	3,026.1
Pertamina	2.8	2,100.4
N. Sumatra Oil Development	1.3	972.1
Maruzen Oil (20 per cent Union)		*64,678.7*
Union Oil	81.8	47,129.9
Arabian Oil Co.	8.4	5,458.8
Far East Oil Trading	5.8	3,766.9
USSR	1.8	1,151.4
N. Sumatra Oil Development	1.4	878.4
Shell	1.2	752.2

Independent companies/suppliers	*Per cent of total*	*'000 barrels*
Idemitsu Kōsan		*118,345.2*
Gulf	26.2	30,997.7
CFP	16.2	19,157.6
Esso	15.0	17,734.8
Arabian Oil Co.	12.4	14,643.8
USSR	7.5	8,907.7
Amoco	3.8	4,504.7
N. Sumatra Oil Development	0.2	264.1
Fuji Kōsan		*18,378.4*
Mobil	55.0	10,115.7
Asia Oil		*31,242.7*
Mobil	43.1	13,479.8
Shell	19.8	6,193.3
Esso	16.5	5,140.0
Arabian Oil Co.	9.3	2,894.4
CFP	5.4	1,681.3
Far East Oil Trading	2.6	822.2
N. Sumatra Oil Development	0.5	144.3

Independent companies/suppliers	*Per cent of total*	*'000 barrels*
Nippon Mining		38,199.3
Gulf	34.1	13,019.8
Arabian Oil Co.	12.2	4,648.8
Continental	2.5	953.4
Far East Oil Trading	2.0	779.0
Atlantic Richfield	1.3	496.6
British Petroleum	1.3	489.7
N. Sumatra Oil Development	0.7	254.0
Daikyō Oil		*40,105.0*
CFP	22.6	9,056.8
Sun Coast	19.6	7,876.7
Mobil	13.3	5,318.4
Arabian Oil Co.	10.8	4,354.6
Atlantic Richfield	10.4	4,160.8
Shell	8.8	3,538.0
N. Sumatra Oil Development	0.6	227.7
Tōa Oil		*21,330.1*
Gulf	13.1	2,797.6
Arabian Oil Co.	11.3	2,404.3
USSR	3.3	705.2
Mitsubishi Trading		*17,993.8*
Shell	75.8	13,639.4
Far East Oil Trading	5.1	918.3
Arabian Oil Co.	2.0	368.8
Kyūshū Oil		*15,215.8*
British Petroleum	56.8	8,644.6
Caltex	16.7	2,539.7
Arabian Oil Co.	11.2	1,703.4
Mobil	3.4	513.4
Atlantic Richfield	2.9	446.9
Taiyō Oil		*15,078.4*
Aminoil	18.9	2,847.5
CFP	13.5	2,014.9
Shell	11.5	1,729.1
British Petroleum	10.8	1,601.8
Arabian Oil Co.	10.6	1,595.4

Independent companies/suppliers	*Per cent of total*	*'000 barrels*
Pertamina	2.8	425.9
Esso	2.6	399.5
Mobil	2.4	357.0
Tōhō Oil		*14,739.7*
Arabian Oil Co.	27.2	4,004.0
Shell	6.2	920.6
Far East Oil Trading	0.6	94.4
Kansai Oil		*13,187.5*
Amoco	12.9	1,707.0
Union Oil	12.9	1,702.8
Arabian Oil Co.	12.0	1,582.8
Far East Oil Trading	4.5	596.8
Fuji Oil		*10,651.9*
Gulf	56.2	5,986.2
Arabian Oil Co.	34.9	3,717.2
CFP	8.9	948.5

Source: Petroleum Intelligence Weekly (hereafter PIW) 29 December 1969.
Note: The shares of some companies do not total 100 per cent

MITI stepped up financial backing to Japanese oil exploration by establishing the Japanese Petroleum Development Corporation in October 1967, which merged the Overseas Oil Development Company. The original task of JPDC was to provide 'equity capital and unsecured loans by Japanese firms overseas and offshore Japan'.[20] JPDC financed 50 to 70 per cent of the necessary exploration investment of the joint-venture company by JPDC and private oil firms. When the project was unsuccessful the parent company was free from liability for the unsecured loan which JPDC had provided. It financed thirty-two oil exploration projects in various parts of the world in its initial six years up to 1973 but only a few projects succeeded in commercial production of oil. Before the first oil crisis in 1973–4 it was virtually only the Arabian Oil Company that brought Japanese-owned crudes into Japan accounting for 91 per cent of total imports of Japanese-owned oil in the fiscal year (FY) 1972. Four Japanese firms supplied only 8.5 per cent of total oil imports against the 30 per cent target set by MITI. The self-sufficiency rate continued to decline from 12.7 per cent in FY 1969 to 8.5 per cent in FY 1972. It was impossible for Japan to meet rapidly-increasing oil demands with its own supply sources while its absolute consumption was already high and the growth rate was extraordinary. Japan had to face the hard reality in 1973 that its oil imports were far beyond its own acquisition capacity and depended heavily on the Middle East.

Table 4.5 Averaged value of landed crudes

Fiscal year	C.i.f values		Exchange rates
	$/barrell	yen/kl	yen/$
1956	3.23	7,333	360.00
1960	2.30	5,213	360.00
1965	1.97	4,488	360.00
1970	1.83	4,147	360.00
1975	11.36	22,142	296.87
1980	32.27	47,206	227.65
1981	37.29	51,387	219.10
1982	35.00	54,383	247.28
1983	30.73	45,861	237.27
1984	29.36	43,713	236.66
1985	28.07	42,373	239.97
1986	16.40	18,169	176.12
1987	17.78	16,550	145.89
1988	15.60	12,550	127.93
1989	16.71	14,450	137.47

Source: Petroleum Association of Japan.

THE TWO OIL CRISES AND JAPAN

Demise of the concession system and its impact on Japan

The concession system which enabled major oil companies fully to control the whole oil business in producing countries began to collapse when they conceded to a tax-price hike in 1970. It became evident to everybody that the majors were losing not only the power to set oil prices but also the ownership of producing assets in the oil-producing states by accepting the host country's 25 per cent participation in them. Its impact on the oil market was not obvious as oil producers could not find oil buyers and sold their equity oil to concession holders. They refrained from selling their newly-acquired oil at prices lower than concession holders' buy-back prices. Direct sales by producers to third-party buyers were so few and far between that they were able to make prominent headlines in oil journals. Some producers profited by the auction of oil in the oil crisis of 1973–4. They cancelled auctions when buyers did not come up to their expected price levels, and again sold back their oil to concession holders or cut production to maintain a high price level.

The first oil crisis shocked the Japanese mainly for the following reasons. First, Japan was not initially classified as a friendly country that supported the Arab cause and was treated unfavourably for oil exports by the Organisation of Arab Petroleum Exporting Countries (OAPEC). Second, major oil companies cut, by varying degrees, their supplies to non-affiliates and the Japanese seriously worried whether Japanese firms, including refiners and trading houses, could make up the supply loss caused by the majors. Third, nobody knew whether the Japanese economy could pay the inflated oil bills, which dramatically changed the trade balance of Japan from a surplus to a huge deficit. Concern and uncertainty were expressed both about the price and the available quantity of oil. It was considered doubtful that Japanese firms could secure as much oil as the Japanese economy required. The sense of insecurity was so strong that the government itself had to move in to secure oil, mobilising all measures including diplomatic ones.

As for the Arab oil embargo, the Japanese had optimistically thought that Japan would be regarded as a friendly country, since it had never supported Israel in Arab-Israeli wars. Japan had avoided commitment to Israel at both government and enterprise levels. Major Japanese firms had kept totally out of Israel, being afraid of becoming entangled in the boycott by Arab states.

Therefore, OAPEC's announcement of a cut in supply to Japan was quite a shock to the Japanese. It is easy to point out with the benefit of hindsight that Japan was picked on by the Arabs to force it to commit more to the Arab cause because of its heavy oil dependence on Arab oil producers. Public opinion in Japan overwhelmingly asked the government to express clearly its support for the Arab cause. After consultation with the US Government on this issue it expressed its willingness to uphold UN Resolution 242, adopted by the Security Council in 1967 and calling for the withdrawal of Israeli forces from territories occupied during the early war. At the same time, the government sent the Deputy Prime Minister's special envoy to Arab countries to explain about Japan's new Arab policy. They persistently asked Japan to cut diplomatic ties with Israel but Japan refused their request. Japan could not sacrifice diplomatic relations with Israel, even for oil, because it depended, on the one hand, on Arab oil, and on the other hand, it had close business relations with Jewish firms in foreign trade and international finance. Japan was re-classified as a friendly country by OAPEC on 26 December 1974 without accepting the Arabs' demand to break diplomatic relations with Israel.

Major oil companies, which were the largest oil suppliers, cut oil supply by 25–35 per cent to non-affiliates, citing *force majeure* on the grounds that OAPEC ordered them to cut production. CFP, which was a supplier to non-affiliates, completely cut supplies for December 1973 to customers. They fell into panic as non-affiliate refiners did not have their own supply sources and were not accustomed to the crude-oil business, except Idemitsu Kōsan which was known as an independent supply seeker (see Table 4.6).

Table 4.6 Original crude suppliers to Japan

(Percent share)

Fiscal year	*8 major international companies*	*Independents*	*National oil companies of oil producers*	*Japanese-owned companies*
1973	74.1	8.4	9.2	8.3
1974	72.1	8.0	10.4	9.5
1975	70.0	7.7	14.3	8.0
1976	70.1	6.2	15.1	8.6
1977	68.0	4.7	19.5	7.8
1978	65.8	3.6	20.7	9.9
1979	51.9	2.4	37.2	8.5
1980	44.5	3.3	44.4	7.8
1981	44.8	3.4	45.0	6.8
1982	40.7	3.7	46.6	9.0
1983	33.1	3.1	54.1	9.7
1984	29.3	4.3	57.2	9.3
1985	26.1	3.7	59.7	10.5
1986	26.0	2.3	59.7	10.5
1987	28.1	1.4	62.0	8.5
1988	26.9	1.8	61.3	10.0
1989	26.1	1.0	62.2	10.8

Source: Petroleum Association of Japan.

Trading houses and refiners chased after available oil in the world market and joined oil auctions held by producers. Japanese buyers tried to secure the required quantity and were prepared to pay high prices. A Japanese refiner bid at $22.60 a barrel in Nigeria's oil auction,[21] which was later cancelled by the bidder on the advice of MITI which was eager to avoid the accusation by other oil-importing states that Japan was raising the oil price in the world market. This was the highest price reported by oil journals during the first oil crisis. With strenuous efforts, epitomised by such episodes, Japanese importers made up the loss of supply from the majors. Japan's crude imports in FY 1973 increased by 17.2 per cent from 4.2 m b/d in FY 1972 to 5.0 m b/d. In fact, the majors' cutbacks to non-affiliates resulted in the loss of long-cultivated markets and they could not completely recover the loss even after the crisis.

Non-affiliate refiners had survived the crisis by paying an unprecedented cost. Since they purchased substantial amounts of oil in the spot market the averaged landed cost per barrel was $1.00 or $1.50 higher at $10.50–$11.00 than the affiliates' $9.00 a barrel.[22] This cost difference between the affiliate and non-affiliate further widened the gap of financial position between them.

Japan's oil diplomacy

The Japanese perceived that the first oil crisis after World War II was caused by the increasing depletion of oil reserves and thought that Japan might be driven to the wall because it had no powerful national oil company with interests in Middle East oil and because its economic ties with oil producers were weak except for trade relations. They were concerned that Japan might lose in the oil war if the government did not come up to the front to support its private firms in oil-buying. The government therefore began to have direct contacts with oil producers for oil supply to Japan. So-called oil diplomacy began by the joint efforts of the government and people. In January 1974 Trade Minister Mr Nakasone called on Iran, the largest oil supplier to Japan, and Iraq and signed economic co-operation agreements with them. Iran promised to supply 160 million tons of oil over the next ten years in exchange for a Japanese loan of $1 billion. Japan pledged $1.5 billion credit to Iraq, who also agreed to supply Japan crude oil, products and LPG. In 1974 Japan made an oil agreement with China. In March 1975 Japan signed with Saudi Arabia an economic co-operation agreement that included the establishment of joint ventures in the industrial sector. Japan's economic co-operation with Iran and Iraq, which had started in the wake of the first crisis, was seriously damaged by the Iranian Revolution, though technical co-operation to the two countries was maintained on a diminished scale. Economic co-operation, particularly technical co-operation with Saudi Arabia and the UAE, continues without any disruption.

The oil-supply agreement with producers substantially eased the sense of oil-supply insecurity at a critical time and contributed to the expansion of trade between them. However, Japan did not import up to the quantity described in the agreements, as Japan's demand for oil had not grown as expected owing to economic recession and energy conservation in Japan. When the oil crisis was over and the market returned to a glut, Japanese importers hunted for cheaper oil, forgetting security of supply. In an oil glut, economics came before security of supply. Oil producers accused Japan of underlifting oil. The government made arrangements for government-to-government or direct oil deals, but it could not force firms to import high-cost oil for the sake of securing supply.

The quadrupling of oil prices by OPEC in 1973–4 suddenly halted the high economic growth of the Japanese economy. Japan's oil import bill jumped from $6.72 billion in 1973 to $21.2 billion in 1974. A sudden and massive transfer of income through oil imports from Japan to the oil producers reduced domestic demand and Japan's economic growth rate in 1974 recorded the first minus since the end of World War II. The government issued an unprecedented amount of national bonds to cushion the demand loss caused by higher oil prices and jacked up the growth rate of the gross national product (GNP). Japan's trade balance turned from a comfortable surplus to a huge deficit and the Japanese yen was devalued against the US dollar. Fortunately for Japan, the weaker yen on the one hand sharpened the competitiveness of export industries and, on the other hand, restrained imports from foreign countries. Japan's trade balance went back into the black in three years and, among Organisation for Economic Co-operation and Development (OECD) members, it was first to come out of the woods. In the second oil crisis in 1979–80 this mechanism of domestic demand restraint and export promotion by higher oil prices worked faster than in the first oil crisis, turning the trade balance from red to black in two years. Japanese currency was sold heavily in the foreign exchange market during the past two oil crises, on the grounds that the Japanese economy was fragile because of its high dependence on imported oil, making the currency unduly devalued. Contrary to most expectations, however, Japan had survived two oil crises and the yen became stronger each time.

For the Japanese refining industry, the first oil shock was a disaster. It was made a scapegoat by the government in order to appease the public's anger at an unprecedented rate of inflation, which was compounded when an executive of a refining company made a slip of the tongue that the oil crisis was a golden opportunity for making profits. MITI did not allow the full increase in crude costs to be passed on to product prices as the refiners requested. As a consequence, refiners tumbled into a huge deficit after the crisis from an unprecedented profit, owing to the floating of the yen, in the time immediately before the crisis. MITI's submission to popularism in oil pricing severely hit financially-weak non-affiliates. Some firms, such as Idemitsu Kōsan and Daikyō Oil, claimed to MITI that they would cut back refinery runs until June unless the government allowed the increases in product prices before then.[23] The refining industry faced a new problem of chronic capacity surplus and low operating ratios. Though the growth of oil demand tapered off owing to the higher oil price, new refining plants, the construction of which had started before the crisis, were completed and commissioned in succession, and the overcapacity, which continues up to today, surfaced.

Economic co-operation for oil

The revolution in Iran, which drastically reduced its oil production, triggered another oil crisis. The world oil market turned, in late 1978, from a buyers' to a sellers' market. Unlike the first oil shock, OPEC raised the government selling prices almost every quarter over the two years. A long-running sellers' market enabled producers to sell their own crudes themselves, cutting term contracts with previous concession holders. All major companies except Arabian American Oil Company (ARAMCO) members lost their term contracts and were forced to become net buyers who did not have enough crude to supply their own outlets. To a varied degree, all majors cut supply to non-affiliates, invoking *force majeure*. In March 1979 BP completely stopped supply to Japanese refiners and Exxon cut supply to non-affiliates by 50 per cent. In the first half of 1979 the majors' share in Japan's total dropped to 55.7 per cent. This figure suggests that the majors' supply to Japanese refiners was virtually limited to their affiliates. In the face of another oil shortage, non-affiliates panicked. MITI, which had the ultimate responsibility for securing oil for the Japanese economy, was surprised at the incompetence of non-affiliates in crude-oil procurement. Officials of MITI told the press, 'whether it is a white cat or a black cat, a cat that brings oil is a welcome cat',[24] indirectly admitting the failure of its oil policy.

In the sellers' market Japanese buyers, desperately in need of oil, became the prey of oil producers and were forced to pay various types of surcharge on top of the inflated official price to buy oil directly from producers. For example, Japanese buyers paid $43 a barrel on average for some 21 million barrels of Iranian oil in the fourth quarter of 1979. In 1981, when Japanese buyers lifted Iraq's Kirkuk crude at Ceyhan in Turkey, because of the war-caused closure of Iraq's Gulf ports, they paid $2.75 a barrel more than the delivery price at the Gulf. A higher price was imposed on them, including the East Mediterranean differential for European customers for the identical Kirkuk crude, on top of the extra cost of longer haulage. In general, the average cost of oil imported by non-affiliates was higher than that of affiliates, as the majors could supply them with cheaper crudes owing to their strong bargaining power *vis-a-vis* producers and their world-wide logistics. The difference of crude acquisition cost between the affiliates, in particular ARAMCO affiliates, and non-affiliates widened the performance gap between them.

The government rekindled its financial and technical aid to Middle Eastern producers to secure and facilitate Japan's oil imports from them. An additional official loan was approved by the government in order to complete the LFPC project which had been suspended since the end of 1978 owing to the political turmoil in Iran. The government authorised two industrial projects in Saudi Arabia as national projects so that OECF invested in a methanol and a petrochemical project which were jointventure projects with the Saudi Arabia Basic Industry Corporation (SABIC). Unfortunately the IJPC projects were suspended following Iraqi air raids during the Gulf War. The Japanese group thought that it was no longer economically viable and withdrew from the project in 1989 after long negotiations with Iran. The two successful joint-venture projects in Saudi Arabia are not so much publicised as the unfortunate LFPC. The Japanese investors in these projects were entitled to import incentive crude in accordance with the amount of the investment, but the right was little exercised since the oil market collapsed in 1986 before the commissioning of the petrochemical project. While cheap oil was available in the market, investors did not buy incentive oil at official prices and gave up the right. On the other hand, the two projects were commissioned with good timing, synchronising with world economic recovery, and became successful businesses. Japanese investors had not anticipated dividends at all, therefore the financial success of the business was a pleasant surprise. From the point of view of securing tied oil through investment in petrochemical projects in oil-producing countries, Japan's efforts were futile. Nevertheless, the Japanese Government should not ignore their contribution to strengthening the economic ties between the two countries.

Poor performance of Japanese-owned oil fields

The second oil crisis in 1979–80 rekindled people's interest in securing Japanese-owned oil resources. MITI utilised this opportunity to increase oil exploration and development by government and private firms. In the 1970s and 1980s about twenty oilfields were developed in Asia, Africa, the Middle East and Latin America, thanks to the efforts by government and people to secure Japanese-owned oil resources. However, there were no major discoveries at all. The oil discovery in Sakhalin, by a joint project between Japan and the USSR, is estimated to have a potential capacity of 100,000 b/d. This is potentially a big discovery; however, its development was suspended following the imposition of US economic sanctions against the USSR after the invasion of Afghanistan in 1979. A plan to develop natural gas and export it to Japan and the US together with American companies was also cancelled. For a while the Japanese pinned high hopes on the exploration of offshore China, but it did not become the North Sea of the Far East. The combined imports from Japanese-owned sources had little impact on Japan's oil self-sufficiency. Overseas production peaked in 1978 at 513,000 b/d and thereafter declined gradually to 410,000 b/d in 1986. Nevertheless, the self-sufficiency rate rose to the 10 per cent level after 1984 as demand for oil dropped substantially in the first half of the 1980s.

Oil consumption declined by 1.1 m b/d during the four years between 1979 and 1982. This remarkable cut was achieved mainly by increasing use of alternative energy such as nuclear, natural gas and coal, and an increase in energy efficiency in industry, transportation and the domestic sector. Among these alternative energy sources, the government has made use of nuclear energy as the mainstay of future energy resources, backing the expansion of nuclear power generation by electric utilities in many ways. Nuclear energy was posted as a quasi-indigenous form of energy in Japan's energy policy, because it was easier to secure and store nuclear fuel than oil. The total installed capacity of nuclear power plants was 24,686 MW at the end of March 1986, and it generated 160 TWh of electricity, accounting for 23.5 per cent of the total electricity generated in FY 1985. This is equivalent to about 691,000 b/d of oil at the conversion rate of 1 kWh to 0.26 litres of crude oil. Though there is much argument about economics and the safety of nuclear power generation, the government's position on its expansion has been firm and consistent. The second largest alternative fuel for oil is LNG, which is mainly consumed for power generation. LNG is cleaner than oil and coal in terms of emissions, such as nitrogen oxide (NO_x) and sulphur oxide (SO_x) and is burned in power plants in urban areas, where air pollution controls are stricter. The consumption of LNG amounted to 21.6 million tons (equivalent to 526, 000 b/d of oil) in 1986, showing a steady increase in demand from its start at a mere 3.3 million tons in 1975. Economically it is not beneficial to burn costly LNG. However, it has substantially contributed to the diversification of energy resources and the reduction in imports of Middle Eastern oil. In terms of supply security, it is more secure, as LNG comes from the Asia Pacific area, except for a small amount from Abu Dhabi. Coal consumption as fuel is very limited in Japan. Unlike West Germany, the US and the UK, electric utilities in Japan have shown little interest in coal-burning for economic and environmental reasons, consuming only 22.6 million tons in 1985.

As for energy conservation, Japan has succeeded in drastically reducing the energy (that is, oil) intensity of its economy under the heavy pressure of higher oil prices. The TPER (total primary energy requirements)/GNP ratio dropped by around 35 per cent between FY 1973 and FY 1984. This resulted from conservation and greater efficiency in energy use, mostly in the industrial sector. Other sectors of the economy also contributed, to a varied degree, to energy conservation, by adopting various technologies and devices: in the transportation sector through the introduction of energy-efficient vehicles and a reduction of the average mileage driven per car, in response to higher fuel prices, and in the household sector by the adoption of energy-efficient electric appliances and solar water heaters.

Energy conservation became one of Japan's success stories. However, the movement towards energy conservation was reversed by the collapse of oil prices in 1986 as lower oil prices accelerated economic recovery in progress and demand for energy-intensive industries was rekindled. Demand for oil has increased in the four years since 1986 and reached 5.05 m b/d in 1989 though it is still 480,000 b/d lower than the peak year 1979. However, this demand growth was halted by the higher oil price caused by UN economic sanctions against Iraq for its invasion of Kuwait.

CONCLUSION

The international oil system controlled by major international oil companies until the end of the 1960s had been completely destroyed by a succession of nationalisations of oil concessions by the governments of the oil-producing countries. The integration of the international oil industry which characterised the industry was also destroyed and the majors lost most of the oil they once had in their concession areas. As a result, not one crude-long international major oil company now remains and they all have become net buyers of crude. With the decrease of their equity oil, they cut back supply to third-party buyers and withdrew from marginal and unprofitable markets. For the majors, Japan had been a big outlet for their crudes, demanding an ever-increasing supply from them. Japan ended simply as a crude-oil importer without having any substantial Japanese-owned oil supply source except the Arabian Oil Company. As far as oil production is concerned, it could not challenge or shake at all the international oil system dominated by majors.

What MITI had effectively done was to lower the price of oil supplied to Japan by the majors. This was done within the framework of the majors' oil system. The intention was to save scarce foreign exchange and to sharpen the competitive edge of Japanese industry with cheaper energy costs. MITI took nationalistic measures to foster non-affiliates, making full use of administrative measures such as foreign exchange quotas for oil and, after the abolition of that, approval of new capacity to restrict the share of the affiliates. MITI's licensing scheme was extremely useful to expand capacity to meet increasing demand and at the same time drove refiners into competition for a greater share of the market, which caused a chronically weak product market. Non-affiliates had hardly been able to make cash flows enough to maintain a continuous investment in the upstream. They joined sporadically in oil exploration. None of them succeeded, however, in becoming an integrated company. In most cases, the initiative for oil exploration abroad came from those business leaders who represented energy-intensive industries such as iron and steel and electric utilities, or business groups like Mitsubishi and Mitsui. The Japan National Oil Corporation (JNOC) backed them by financing 70 to 80 per cent of the necessary exploration investment of the project. Japan has had no capable oil company which could invest annually in oil exploration in the order of billions of US dollars. However, the function of such a company was substituted to a certain extent by oil development companies of major business groups and JNOC.

So far, they have made no major oil discovery and the rate of return on their investment in oil exploration and development has been unsatisfactory. The government facilitated direct imports from oil producers, providing loans to industrial projects and various technical aids. In the glutted market of the latter half of the 1980s, Japanese importers used their buying power as a group to cut import prices and Japan could also import cheaper oil thanks to revaluation of the yen. The share of the eight international oil companies declined from 74.1 per cent in 1973 to only 26.1 per cent in 1989. This is a reflection in Japanese oil imports of the demise of the international oil system controlled by the majors.

Regardless of any changes in the international oil system, Japan has imported a great deal of oil. Under the majors' dominance Japan had a marginal influence on oil prices which it bought from international oil companies. Unlike the majors, oil producers are much more flexible in the pricing of oil in a volatile oil market. Japanese buyers extended a substantial influence on international oil price in direct dealings with oil producers in both tight and glutted markets. When the market is tight the Japanese are weak buyers and in a glutted market they change into powerful buyers owing to the volume they buy at a time.

The Iraqi invasion of Kuwait triggered another oil crisis. The supply loss of around 4.5 million b/d from Kuwait and Iraq was larger than the Iranian supply loss in 1979, except for the first three months, and the oil prices in the futures market soared to almost US $41 a barrel at the end of September 1990, which was little short of the US $42 a barrel for Arabian Light, the record high in 1979. Despite a sharp increase in price and the supply loss of 400,000 b/d from these two countries, Japanese buyers were not panicked as PIW commented on Japan's oil-buying about a month after the Iraqi invasion:

> compared to the 1970s oil shocks, Japanese buying behaviour has been a model of iron discipline. If there have been occasional moments of panic, it has been quickly squelched…Tokyo has quietly covered its immediate product needs and tied up overall needed crude oil volumes through year's end.[25]

The changed behaviour of Japanese buyers has resulted, not from any development of their own side, but from the transformation of the oil market under the new oil system, in the words of Steven Butler, 'market-based commodity system'.[26] The development of free oil markets in the form of direct dealings with oil producers, spot market and futures market has greatly augmented availability of oil in the market and enhanced the manoeuvrability of Japanese buyers compared to the previous two oil crises. A major cause of Japanese panic buying in the 1979–80 oil crisis was the supply cut to third-party buyers by the majors and the ripple effects caused by this, since the oil markets were too small to absorb smoothly a sudden increase of trade. They were free from such trouble in the 1990 crisis because the majors were no longer intermediaries between them and the oil producers.

Japan's oil supply security is still far from Winston Churchill's oil axiom: 'on no one country, on no one route and on no one field must we be dependent. Safety and certainty in oil lie in variety and variety alone',[27] depending as it does on the Gulf area for more than 70 per cent of its oil imports. However, under the new oil system Japanese buyers have gained substantial commercial leeway to secure oil in free markets, even during a sudden supply cut from its main suppliers.

Chapter 5
The Iran-Japan petrochemical project
A complex issue

Kazuo Takahashi

On 5 March 1979 a tanker charted by Japanese concerns left Iran with its first crude oil for export since the revolution. Both in Japan and in Iran, where subtle signs can mean much, observers read the new government's choice of customer for its first oil export as more than accidental. It was seen as an indication of Iran's determination to bypass the major oil companies and market its own oil by itself. It was doubly significant, since one of the companies in that transaction was the Mitsui and Co. Ltd which had led a Japanese consortium to invest the sum of $2.5 billion in a petrochemical complex at Bandar Imam Khomeini (Shahpur) on the Iranian side of the Persian Gulf. Because Japan negotiated the petrochemical project with the late Shah, his fall had caused concern over its future. It was speculated that the oil deal signified its approval by the revolutionary government. The speculation was not in vain. The following autumn the new government persuaded Tokyo to underwrite a further $88 million of private investment in that plant.[1] The project was resumed only to be interrupted by the subsequent Iran-Iraq war, and eventually to be abandoned by the Japanese companies in 1990. The purpose of this paper is to discuss the origin, construction and destruction of this petrochemical complex and Mitsui's withdrawal from the joint venture. Before going into the story of this ill-fated venture, a cursory look at the post-World War n history of Iranian-Japanese relations should be in order.

IRAN-JAPAN RELATIONS AFTER 1953

After this first oil deal in 1979, direct oil transactions between the two countries increased dramatically. In spite of the revolution, Iranian-Japanese ties seemed to be undisturbed and even expanded. But there was not much revolutionary in Iran's friendly relations with Japan. They have historical roots going back to the 1950s. Iranians see their modem history as one of domination by Britain and Russia (and later by the Soviet Union) in the nineteenth century and in the first half of the twentieth century, and by the United States since 1953. Foreign control of oil was the symbol of outside influence over Iran. The traditional policy of Iran was to seek relations with distant powers to counterbalance the domina- tion by more immediate ones. Thus, the relationship with the United States was initially intended to neutralise Britain and Russia. Japan has been seen as another distant country not threatening to Iran. The Iranian-Japanese relationship should be understood in this historical context.

Iran has tried to free its oil from foreign control for a long time. Until the nationalisation of the oil industry in Iran in 1951 under the leadership of Prime Minister Mohammad Mosaddeq, Iran's oil was under the control of the Anglo-Iranian Oil Company (later known as British Petroleum). Dr Mosaddeq established the National Iranian Oil Company (NIOC) to market oil by itself, and appointed a young French-educated technocrat named Mehdi Bazargan as its first director. Iran's attempt to export oil was, however, unsuccessful in face of a concerted boycott by the major oil companies. After the overthrow of the Mosaddeq government in August 1953, British Petroleum, together with other multinational oil companies, regained control over Iranian oil. After that, the Shah, in a more modest way, also tried to market Iranian oil directly to importers. Iran met with some success in Eastern Europe and Israel and, by the 1970s, the influence of the major oil companies, which controlled 90 per cent of crude-oil production outside of North America and Communist states in the 1950s, diminished. Before the revolution Iran had already sold some of its oil through direct deals. The revolutionary government in turn carried the process to its logical conclusion by denying the major oil companies any role in Iran.

On the other hand, Japan, too, has had a long-standing aspiration to reach petroleum exporters directly. When Japan reclaimed its sovereignty in 1952, American multinational oil companies were entrenched in the Japanese market. The post-war history of oil policy in Japan was that of the futile struggle of the Ministry of International Trade and Industry (MITI) to dislodge them and make Japan independent of oil imported by foreign multinational oil companies. One method was for Japan to explore and exploit oil for itself. In the event, the venture met more dry holes than oil. Another means has been to buy oil directly from producers. Yet in 1973, Japan bought less than 10 per cent of its oil through this channel. The 1973–4 oil crisis underlined the strategic implications of Japan's double dependence on Middle East oil imported through the major oil companies. This accelerated Japan's search for direct oil deals with producers. In order to curry favour with oil exporters, Japan resorted to economic sweeteners. The most significant among them was the petrochemical joint venture with Iran as an equal partner. As will be discussed below, although this joint venture originated before the first oil crisis, its continuation was interpreted by many as Japan's pledge of support for Iran's industrialisation, in exchange for guaranteed access to oil. Also, Japan's choice of Iran reflected the prevailing perception that Iran, being non-Arab, was less likely to resort to the oil weapon.

IRAN-JAPAN AND PETROCHEMICALS: EARLY INITIATIVES

There has thus been a durable, though unfulfilled, harmony of interest in oil policy between Iran and Japan. As a matter of fact, in 1953 Japan was one of the few countries that dared to purchase oil from Mosaddeq's Iran in spite of Britain's warning against it. The first post-revolutionary direct oil deal sanctioned by Prime Minister Bazargan was, thus, deeply symbolic in its choice of partner, Japan, and in its date, 5 March, the twelfth anniversary of the death of Dr Mosaddeq.

It is against this background that the idea of a joint petrochemical company between Iran and Japan was conceived and implemented. Its origins go back to the Shah's era. Oil exporters generally want to develop their own petrochemical industries. Iran's third five-year development plan for the 1963 to 1967 period emphasised investment in a petrochemical industry. In the mid-1960s, the National Petrochemical Company (NPC) of Iran, a subsidiary of the NIOC, and Allied Chemical of the United States started a joint venture called 'Sh hp r Chemical', for it was in Bandare Sh hp r that they were to build a fertiliser plant. NPC also entered into a joint venture with another American company to produce liquefied petroleum gas (LPG) for export from Kharg Island in the Persian Gulf.

The Shah wanted further investment in petrochemical industries in the fourth five-year development plan. This plan called for a total investment of \$11 billion for the period 1968 to 1972, even though Iran's oil revenue then had hardly reached \$1 billion a year and the oil price per barrel was only \$1.80. Iran needed to attract foreign investors to achieve its goal. The Iranian Government imposed import restrictions in order to force exporters to process locally and thus to invest in manufacturing in Iran.

In response to this request for investment, in November 1968 the Government of Japan dispatched a mission to investigate economic opportunities in Iran. This mission was also sent to try and solve a trade issue between the two countries. At that time Iran was imposing a surcharge upon Japanese products on the grounds that it was suffering a deficit in its Japanese trade. Although Iranian crude supplied 40 per cent of Japan's total oil needs and Japanese trade statistics showed a huge trade deficit for Japan in its Iranian trade, Iran maintained that it did not export any oil to Japan. Iran was simply selling oil to the consortium of foreign oil companies that handled the marketing of Iranian oil, which in turn was reselling Iranian crude to Japan. Thus, Japan was not running a trade deficit with Iran as such, for oil was bought from the consortium. This reasoning was more interesting than persuasive to the Japanese. Nevertheless, the surcharge was a problem.[2]

In Iran the Japanese mission received a briefing on the fourth development plan. It also visited various parts of the country. The director of the NPC, Bagher Mostowfi, guided the Japanese around the oil-producing areas in Khuzistan in the south-west of Iran, near the Iraqi border. Mostowfi brought the Japanese to a site of gas being uselessly burned. Oil and natural gas are usually found together, and therefore the latter is called by the name of 'associated' gas. Although this gas is useful as an energy source and a petrochemical raw material, it cannot be processed without an elaborate facility. Thus, in the exploitation of oil, this gas is frequently flared and wasted.

Included in the Japanese mission was Sueyuki Wakasugi, vice-president of the Mitsui & Co. (hereinafter referred to simply as Mitsui), one of the largest trading houses in Japan, thus, in the world. Mostowfi asked Wakasugi, who was to become the president of Mitsui in the following year, whether his company could start a business to process the wasted natural gas. Huge columns of flames must have left a deep impression on Wakasugi's mind for upon his return to Tokyo he ordered Mitsui's chemical division to study the possibility of petrochemical production in Iran. The study's findings were pessimistic, for it estimated that the construction cost of a petrochemical plant in the Middle East would be twice that of one in Japan.[3]

Nevertheless Mitsui started talks with NPC about the feasibility of joint petrochemical production in Iran. One of the motives behind this was rising environmental concerns in Japan making the operation of a petrochemical plant more difficult there. Furthermore, the operation of Sh hp r Chemical struck the Japanese as a proof that petrochemical production in the Middle East could be commercially feasible. Mitsui, however, learned later that its construction actually cost twice as much as originally planned.[4]

In the spring of 1970 Iran requested Mitsui's co-operation in running Sh hp r Chemical, informing Mitsui that Allied Chemical was withdrawing. In response, the Mitsui companies sent a team of engineers to investigate the Sh hp r operation. Its report was favourable. Moreover, the report stated that the Iranians could operate it themselves. This report encouraged Mitsui for it had worried that the quality of Iranian personnel might not be high enough to operate a modern petrochemical plant. On the negative side, the withdrawal of the American company served as a warning to Mitsui.[5]

In October NPC proposed a joint feasibility study with Mitsui. It took the NPC six months to persuade Wakasugi to agree to their idea. And of course time alone was not sufficient for that task. The NPC offered various concessions to improve the operation's profitability. Foremost among them was the proposal that Iran would offer gas for raw material virtually free at only two cents for 1,000 cubic feet. In the spring of 1971 the feasibility study finally started. Three years had passed since the director of NPC, Mostowfi, had first introduced the idea of petrochemical production in Iran to Wakasugi.[6]

JAPAN AND OIL EXPLORATION

In conjunction with NPC's above efforts in petrochemicals, Iran was seeking Japan's co-operation in oil exploration. In May 1969 Foreign Minister Ardashir Zahedi visited Japan to meet with Prime Minister Eisaku Sato. In this meeting, Zahedi asked Japan's assistance to explore oil in Luristan, which is in the western part of Iran near the Iraqi border, more than 400 miles inland from the Persian Gulf.[7]

In March 1970 Mitsubishi, a rival of Mitsui with substantial experience in the oil trade, together with other companies, looked into Luristan, but did not find it promising. Even if oil were discovered, a pipeline over 400 miles long would have to be laid from inland oilfields to the Persian Gulf, requiring an enormous investment in addition to costly oil exploration. Impatient with this lukewarm response, Iran advertised on 1 July 1970 in a Japanese daily that it would open Luristan to international bidding for oil exploration rights. Many Japanese companies took keen interest in this announcement. With the blessing of the Government of Japan, they formed a consortium to bid to work for 'autonomously developed oil', meaning oil free from the control of the majors. Prominent among them was Mitsui, for it had been eager to strengthen its oil business. Its rival Mitsubishi had enjoyed a clear lead in this area. Oil was Mitsui's as well as Japan's Achilles' heel. Luristan, it was hoped, provided an excellent opportunity for Mitsui to catch up with Mitsubishi in oil. Thus Mitsui committed itself to another venture in Iran.[8]

In February 1971 Persian Gulf exporters won what then seemed to be a substantial price hike of 35 cents per barrel in their negotiations with the majors in Tehran. Many saw this as a sign of the majors' loss of control of oil to the Organisation of Petroleum Exporting Countries (OPEC). Against this background of the majors' declining influence, Luristan seemed to offer a golden opportunity for Japan to secure direct access to Iranian oil. However, tough competition was to be expected for the exploration rights. Mobil Oil and Deminex (the Oil Public Corporation of West Germany) were expected to tender. Deminex was rumoured to have offered to purchase 63 million barrels of crude oil for its reserve and the construction of a pipeline linking Iran and the Mediterranean Sea through Turkey.[9]

As Deminex was rumoured to be doing this, the Japanese also considered offering an 'annex' or extra inducement in their tender. The Japanese consortium used a consultant, Harry F.Kern, who was thought to have access to the Iranian royal family. Kern was a rare figure having access both to the top decision-making circles in Tokyo and Tehran. According to Kern, Iran wanted to refine and market Luristan oil jointly with its developer, eventually operating its own filling stations in oil-importing countries. With this information the Japanese consortium decided to set up a crude-oil-importing company in Japan owned by NIOC and itself. In February 1971 it sounded out this idea with NIOC. After consultation with the Shah, NIOC notified the Japanese that it wanted the construction of a petrochemical plant, in addition to the joint company, to import crude oil into Japan. Thus, Iran linked the petrochemical project with the oil exploration in Luristan.[10]

By this time, contrary to the previous negative feelings, Luristan as a potential oilfield came to be seen by many as most promising. The start-up of commercial production in an oilfield near Luristan strengthened this view. Wakasugi was tempted to secure Luristan, 'the last remaining large oilfield in the Middle East', by almost any means. He inquired from the chemical division about the feasibility study for the petrochemical project. The division explained that it was not economically sound without a further refinement of the plan which would not be finished before October. Wakasugi, however, did not wait but immediately approved the construction of a petrochemical plant as an annex to the Luristan bidding. His rationale was 'if it can be done by October, it can be done now'.[11]

NIOC let it be known informally that it would grant the exploration rights of Luristan to the Japanese consortium. But at the same time it insisted that the signing of the Letter of Understanding for the petrochemical project was a precondition to the formal awarding of the Luristan bid. On 14 July presidents of five Mitsui companies signed the Letter of Understanding at the NPC's office in Tehran, and then went to NIOC's headquarters to sign the agreement for the development of Luristan oil. Thus, in July 1971 Mitsui officially committed itself to the petrochemical project as well as the oil exploration one.[12]

On 19 October Mitsui and the Iranian side signed the Basic Agreement (BA) on the petrochemical venture which would bind Mitsui until the year 2002. It also stipulated that any dispute would be settled in Tehran on the basis of Iranian law. With the signature of the Basic Agreement, Mitsui formally bound itself to this project before a thorough feasibility study had been completed. As its internal document later stated, it put the cart before the horse. Based on this Basic Agreement, in July 1973 the Iran-Japan Petrochemical Company (IJPC) was established with NPC and the Mitsui companies as equal partners. Yet less than three months later, on 6 October, the Fourth Middle East War erupted. In the confusion of this crisis, the IJPC started reclaiming the coastal swamp around Bandare Sh hp r on which the petrochemical complex would stand.[13]

Meanwhile, in September 1971 the Japanese consortium for Luristan set up a new company, the Iranian Petroleum Corporation, to carry out oil exploration. The Iranians, as well as the Japanese themselves, did not have full confidence in the consortium's oil exploration expertise. Thus, one-third of the shares were ceded to Mobil Oil for assistance. Finally, in March 1972 the Iranian Petroleum Corporation, the NIOC and Mobil Oil founded an oil exploration firm, Iran-Nippon Petroleum Company (INPECO).[14]

In January 1974 the Shah convinced OPEC to raise the oil price to $11. 65 per barrel. This represented a quadrupling of the pre-crisis price. This set off rampant inflation all over the world. Japan was especially hard hit. The skyrocketing prices for materials and machinery made former cost estimates for the project meaningless. They jumped from 170.8 billion yen ($550 million) in the summer of 1972 to 740.9 billion yen ($2.4 billion) in October 1974.[15]

This figure shocked the Japanese involved into having second thoughts about the project. Mitsui decided to freeze the project. Thus, the project came to a halt three years after the signing of the Basic Agreement. By this time the INPECO had drilled eight dry holes in Luristan and had begun the ninth.[16]

THE RUBICON

The suspension of the project gave the Japanese investment and engineering teams an opportunity for internal debate. Most of the executives of the Mitsui companies called for the withdrawal of capital, as Allied Chemical had done from the Sh hp r Chemical. In other words they proposed that the Japanese companies should become the contractors of NPC to construct and operate the complex, but abstain from its management. This was the last chance for Mitsui to get out of the project. After this, they would cross the Rubicon, they argued. But President Ideda of Mitsui rejected this argument and carried the day, saying, 'we can't go back, it's too late in the day'.[17]

After scaling down the project, though still the total estimate was 587.6 billion yen ($2.9 billion), the project was resumed in September 1976 and actual construction was resumed in the following spring of 1977. But in the summer of that year Mitsui experienced a bitter disappointment. Mobil Oil notified its Japanese partner in INPECO that it would withdraw from oil exploration in Luristan after drilling nine dry holes, the last of which was given up in June 1975. Thus, Mitsui's dream of finding its oil in Iran was dashed. And Mitsui was left with its annex (the petrochemical project) alone. Nevertheless, construction continued.[18]

REVOLUTION

On 8 September 1978 Prime Minister Takeo Fukuda of Japan flew by chartered plane low over the construction site of the petrochemical complex of twelve separate plants.[19] On the ground, more than 10,000 Iranian, Japanese, Koreans and fourteen other nationalities were working on the second year of construction.[20] A huge Japanese sun flag was flying from the main building welcoming the first Japanese leader ever to visit Iran. The day before Mr Fukuda had met with the Shah, who had praised this project as the ideal type of economic co-operation for Iran. It was the high point in two decades of IJPC history.[21]

Three weeks later, however, the Iranian construction workers joined a nation-wide strike called by Ayatollah Khomeini from his exile in France. Three months thereafter the construction work came to a halt as the revolution was approaching its climax and foreign workers were leaving Iran. On 26 March 1979 the remaining Japanese bade farewell to Bandare Sh hp r, leaving behind the petrochemical complex 85 per cent completed. Shortly afterward, Bandare Sh hp r was renamed Bandar Imam Khomeini.[22]

The revolution in Iran produced the second oil crisis by doubling oil prices. As noted at the outset, the newly appointed Bazargan government was sending friendly signals to Japan. In April of 1979 Prime Minister Bazargan sent a letter to Prime Minister Masayoshi Ohira in which he revealed his wish to resume the construction of the petrochemical complex. In this month the revolutionary government announced the nationalisation of the petrochemical industry but the IJPC was exempted. Bazargan reiterated his hope in the completion of the project to the Japanese ambassador to Tehran. The Mitsui companies lobbied the Japanese Government intensely to upgrade the project to a ‘national’ project, which was a concept in search of a definition. It had two components, the first of which was that a national project should promote the national interest of Japan. In this respect the IJPC, it was argued, cemented ties with Iran, thus helping to secure a supply of Iranian oil. As a country that bans the export of weapons, economic co-operation was the only way to strengthen such ties with oil-exporting countries bke Iran. Its second component was that taxpayers’ money should be spent on that project. This explained Mitsui’s lobbying, for with or without the revolution the IJPC by this time had exhausted its budget and run out of funds.[23]

Amid the rumours of Mitsui’s influence buying, on 12 October 1979 the Government of Japan decided to lend 20 billion yen and to underwrite another 80 billion yen for the project. In response to this, the Government of Iran pledged its efforts to secure the supply of oil to Japan. And it was agreed to hold a ceremony to celebrate the resumption of the construction. Bazargan wanted to use this occasion to demonstrate the stability of his government. But on 4 November a group of radical students took over the American Embassy in Tehran. Within 48 hours Bazargan resigned. The ceremony was postponed.[24]

In January of the following year Washington resorted to economic sanctions against Iran and asked its allies for co-operation. Japan went along with Washington but excluded the IJPC, arguing that it was a bridge between Iran and the west. The Japanese Ministry of International Trade and Industry (MITI) argued that the IJPC was an anchor that prevented Iran from being driven into the arms of the Soviet Union. To the chagrin of the United States, the Japanese engineers returned to the construction site in July. But within two months another calamity befell the project. On 22 September Iraq invaded Iran. Two days later Iraqi bombers attacked the construction site. The project was yet again suspended.

BOMBING

Despite the war and the bombing of the construction site, Iran insisted on the continuation of the project, though Mitsui was most unenthusiastic. By then this ill-fated joint venture between Mitsui and Iran was dubbed as a joint misadventure. Long since, Mitsui had written off the project as commercially unfeasible and hoped above hope to withdraw and cut its losses. But as noted above, they had signed the Basic 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 with it until Iran might free them from their contract. For one reason or another Iran insisted on its continuation. No amount of persuasion could induce Iran. And as the tide of war was reversed with a series of successful offensives by Iran, serious negotiations for the resumption of the construction started again. In the negotiation Mitsui refused to carry on any additional financial obligations. In the summer of 1983 NPC and Mitsui signed the Supplementary Agreement which stipulated that the Japanese side would not invest any more capital in this project. In other words any additional funds should be raised by Iran.

This changed the position of the Mitsui companies from equal partners to contractors for NPC. In return for that, the Japanese companies pledged to send the engineers back to the site even though the war was continuing.[25] As the Japanese engineers flew back to Iran for the resumption of the construction, so did Iraqi bombers and missiles to the site. This forced the Japanese to leave Bandar Imam Khomeini again in the autumn of 1984. And in the spring of 1985 the Majlis (the Iranian Parliament) unanimously rejected the ratification of the Supplementary Agreement, undermining the legal basis for the resumption of the construction.[26] And as Iraq intensified its bombing of the petrochemical complex, the issue of the resumption became hypothetical.

FRIENDLY SEPARATION

But with the end of the war in 1988, the death of the Ayatollah Khomeini and a deepening economic crisis in Iran, an economic rationality started to resurface in Tehran. Iran began to talk about compensation as a condition for freeing the companies from the obligations of the Basic Agreement. Tehran initially asked for 300 billion yen ($2.1 billion), while Mitsui offered 125 billion yen ($0.9 billion). At the last moment Mitsui added another 5 billion yen to produce a settlement. Thus, Mitsui agreed to pay 130 billion yen (half of it in cash) as compensation to Iran, in return for their release from the Basic Agreement. Also Mitsui agreed to offer $0.5 billion worth of credit to Iran and to purchase $0.15 billion worth of oil products from Iran with advance payments.[27] This agreement was named 'The Friendly Separation Agreement'. And the Iranian side announced that no ratification by the Majlis was required before this agreement would go into effect. Later the Iranian negotiator revealed that it took the Iranian Government more than thirty meetings and the decision by President Rafsanjani himself to terminate the operation and the existence of the IJPC. Probably he realised that as long as this issue remained unsettled, no large-scale Japanese investment in Iran could be expected.[28] With Americans suffering from trade and budget deficits, Europeans preoccupied with Eastern Europe and Soviets being consumed in their *perestroika,* only the Japanese were in a position to help Iran with substantial investment. The IJPC, although started as a monument to Iranian-Japanese friendship and Japan's commitment to the modernisation of Iran, by then stood as the symbol of Iran's intransigence and Mitsui's misfortune. On 8 February 1990 both NPC and Mitsui announced that, by the transfer of compensation to the Iranian account, the process of the Friendly Separation was completed. Iran expressed its hope that this would pave the way to building a new relationship between the two countries. Thus Mitsui's two-decade-long saga came to an end.

POSTSCRIPT

In September 1990 the Iranian press reported the discovery of oil in Luristan province.[29]

Chapter 6
Japan's aid programme and the Middle East

Makoto Mizutani

INTRODUCTION: OUTLINE OF THE ECONOMIC AID OF JAPAN

Japan is the largest donor of official development assistance (ODA) in the world, and it intends to expand its aid budget in future. The modalities of aid will in future be more varied than in the past in order to meet the diversified needs of developing countries, and it will be in the form of grant aid and soft loans on a non-project basis and of grant aid programmes on a smaller scale or of grant aid to remedy foreign debt problems.

In 1990 the share of ODA to the Middle East was approximately 10 per cent of the total ODA of Japan, and this percentage is likely to be maintained. Japan limits itself to aid for development and humanitarian purposes only, and refrains from military or strategic assistance. It will exert more effort to expand technical co-operation as the only appropriate modality for aid to oil-rich countries, but Japanese staff training required in this field will take some years before it achieves the necessary competence. These factors set the framework of Japan's aid to the Middle East.

Japan recognises that for historical reasons the countries in the region are more inclined to relate to Europe and the USA. No Middle Eastern country has followed yet the path of ASEAN (Association of South East Asian Nations) countries, where development was achieved through the creation of an industrial market-oriented economy and the promotion of exports, a pattern of development with which Japan is familiar as a model. These factors impede the smooth expansion of Japan's aid in the region.

Japan is trying to approach the Middle East from three perspectives — political, economic and cultural. Since it cannot provide any military assistance, it would have to attach ever-growing importance to economic aid, political dialogue and cultural exchange. It may be noted that the bulk of Japanese aid is not geared to oil-rich countries, but it is directed to such countries as Egypt, Turkey, Syria and Sudan.

The enlargement of economic aid by Japan in the post-World War n period was something unprecedented as was the recovery and growth of its economy. Japan started as a recipient of aids and it received, for example, $860 million from the World Bank during 1953–66. This entire loan, however, was finally repaid to the World Bank in 1990. When Japan started to extend economic aid in October 1954 by participating in the Colombo Plan, the total ODA budget was $50,000 billion, whereas in 1989 its total ODA expenditure reached $8.95 billion (net disbursement), thus becoming the largest donor in the world (USA $7. 66 billion, France $7.47 billion, FRG $4.95 billion, Italy $3.33 billion, UK $2.59 billion).

Before discussing Japan's aid with reference to the Middle East, it is necessary to provide an overview treating four aspects—philosophy, modality, institutions and current efforts of improvement.

Philosophy

Japan maintains that the aim of its aid is to promote the economic and social development of developing countries and to strengthen its relations with them, while, at the same time, it hopes that such developments would contribute to regional peace and stability. Behind the above objective there lie two explicit philosophical pillars: first, recognition of interdependence, and second, humanitarian considerations. Japan is heavily dependent on developing countries for many basic commodities. Trade with developing countries accounts for about 50 per cent of Japan's exports and imports, whereas the same trade ratios for other Economic Summit participants are about 20 per cent for both exports and imports. Japan is especially dependent on developing countries for some primary commodities, including oil. By maintaining the second pillar, humanitarian consideration, Japan relates to those areas and countries where trade interdependence is less, and it also contributes to the humanitarian aid extended by international assistance works.

This pillar of humanitarian considerations, however, must be seen together with another principle, implicit in the actual implementation of aid, that is, attaching importance to self-help efforts by developing countries. Based upon its own experience of growth and development, Japan believes that self-help efforts are essential in development and that its aid should contribute to such efforts. This contrasts with a philanthropic approach derived, for example, from the Christian tradition. When one looks at the share of grant aid, Japan's figure stands the lowest among eighteen DAC (Development Assistance Committee) nations (for example, Australia 100 per cent, UK 97.3 per cent, USA 92. 2 per cent, Japan 47.3 per cent in 1987). Though Japan intends to enlarge the grant portion of ODA, it has some reservations about the prevailing belief in Europe and the United States that grants are better than loans, and inclines to think that self-help efforts can be better motivated by a repayment obligation.

Modalities

The basic modalities of ODA in the case of Japan are not much different from those of other DAC countries. Bilateral assistance consists of loans and grants. Soft loans are extended largely on a project basis, but they can also be allocated on a programme basis, for example, as policysupport aid which is often requested by governments in pursuing the structural adjustments of accumulated foreign debt. Grants consist of grant aid and technical assistance. In grant aid there are a number of budgetary categories, such as disaster relief, fisheries, food aid, cultural grants and general grants to cover various other categories. Technical assistance is provided by sending technical experts, accepting trainees, carrying out development studies and dispatching international disaster relief teams. Besides bilateral assistance, Japan also contributes ODA to multilateral institutions, such as the United Nations (UN), the International Monetary Fund (IMF) and the World Bank.

Institutions

Two main ministries are involved in ODA, the Ministry of Foreign Affairs (MOFA) and the Ministry of Finance. Taken together, they control about 90 per cent of the total ODA budget of Japan. As far as loans are concerned, two other government bodies, namely the Ministry of International Trade and Industry, and the Economic Planning Agency, are regular members of consultations on loan policies. The Overseas Economic Co-operation Fund (OECF) is an executive body for the management of government loans.

Grant aid is administered by the Ministry of Foreign Affairs in consultation with the Ministry of Finance and other relevant government bodies. The Ministry of Foreign Affairs also determines the content of technical co-operation on the basis of consultations with related ministries and agencies. Such technical co-operation is mainly centred around the Japan International Co-operation Agency, JICA, an executive organ of the government.

One of the biggest problems facing these institutions is the shortage of trained staff and an apparent difficulty in increasing their number, as a result of strict government control of administrative expenditure and of administrative reforms which have limited staff increases. Presently, ODA volume per staff member in aid agencies of MOFA, JICA and OECF in Japan would be five times bigger than that of, for example, the UK, pointing to a heavy work load on Japanese staff.

Current efforts of improvement

Japan, like most other countries extending official development assistance has made use of soft loans in promoting its exports by tying the procurement of goods and services to Japanese suppliers. There was a considerable criticism in international fora of this situation and the Government of Japan decided in 1978 to untie all government soft loans in principle. It has since steadily implemented the decision and in 1987 the ratio of untied aid out of the total of Japan's ODA was 72.1 per cent whereas the average ratio of DAC countries was 54.8 per cent. And in 1988 the procurement rate from Japanese companies in the general untied soft loans was only 27 per cent and Japan claims that the previous criticism would no longer be valid. Strenuous efforts have been made to make Japan's aid more flexible to meet the diversified needs of developing countries:

(a) The expansion of non-project loans: ODA loans have traditionally been provided as project loans. However, in recent years many countries have faced a dramatic deterioration in their international balance of payment positions, and measures to deal with this problem are now regarded as more urgent than the promotion of development projects. Numerous applications for loans, such as commodity loans, or two-step loans, were received, particularly from Asian countries. Japan expanded this type of loan fivefold during 1983–8.
(b) The expansion of local cost financing: In principle, the local cost portion of projects should be met by the recipient nation from its own funds. Japan had a ceiling of 30 per cent of the amount already extended but this rule was modified in 1989 such that the ceiling of local cost to be financed by Japan became 85 per cent of the total cost in the case of Least Among Less Developed Countries (LLDCs) (see explanations for abbreviations at the end of the chapter) and 75 per cent in the case of Lower Middle-Income Countries (LMICs).
(c) Small-scale grant assistance: This aid enables Japanese diplomatic missions to respond promptly and accurately to requests from local authorities, research or medical institutions and non-government organisations in respect of relatively small-scale projects. This type of aid was started in 1989.
(d) Expansion of grant aid for debt relief: At present twenty LLDCs could enjoy this type of aid, which is to provide a grant equivalent to total repayments of principal and interests of the OD A loans.
(e) International disaster relief system: This provides for the dispatch of disaster relief teams and the provision of essential supplies when a developing region is hit by a major disaster. The system is handled by JICA and was initiated in 1987. Nearly 1,300 relief staff members

(fireworkers, nurses, doctors and so on) were registered in April 1989 for immediate action, and relief supplies and equipments are stockpiled in storage bases located at Tokyo, Singapore, Mexico and Pisa, Italy. Earthquakes in Iran and the Philippines are the most recent cases of resort to this system of prompt relief programme.

JAPAN'S AID TO THE MIDDLE EAST: FRAMEWORK AS A DONOR

A number of economic and resource circumstances which determine the relationship between Japan and the Middle East with respect to official development assistance and the pattern of aid extended to the region.

Expansion of volume

Faced with a fiscal deficit, the Government of Japan has been trying to minimise the expansion of the government budget by abiding by the principle of scrap-and-build. However, the ODA budget has been regarded as an exceptional item and it expanded more than twice in the last decade; during the period 1980–9 the general budget increased from 100 to 141.9, whereas the ODA budget increased from 100 to 214. 9. In June 1988 Japan announced the Fourth Medium-Term Target, in which it committed itself to expand the ODA volume up to $50 billion during the five years of 1988–92 (the ODA volume during the previous five years of 1983–7 was half of the above figure, $25 billion). Since Japan pronounced its First Medium-Term Target in 1977 it has not only achieved its target but sometimes it reached the target ahead of schedule and this Fourth Medium-Term Target will be achieved according to schedule.

Table 6.1 shows the geographical distribution of Japan's ODA.

Table 6.1 Japan's ODA in 1988 and in the 1980s

	1988	*1980–8*
Asia	62.8%	70%
Middle East	9.1%	10%
Africa	13.8%	10%
Central and South America	6.2%	10%

Note: For 1988, 1.4 percent went to Oceania, 0.1 per cent to Europe while 6.6 per cent was unallocated.

The rounded percentage shown in the 1980–8 column of Table 6.1 has been maintained in the last decade. The volume of ODA extended to the Middle East in 1988 was $580 million and this figure has increased further according to the Fourth Medium-Term Target. The Gulf crisis of 1990–1 and the Gulf War of 1991 have temporarily dramatically transformed the volume of ODA going to the Middle East. However, it seems that the distribution ratio of 10 per cent to the Middle East is the underlying level of provision and no argument is found now in Japan, at least on the surface, to increase or decrease the level.

Philosophy and objectives

Two philosophical pillars of Japan's aid are, as discussed above, the recognition of interdependence and humanitarian considerations. Japan's main objective is to promote the economic and social development of recipient countries. In the light of these considerations, Japan stresses very much the essential significance of assistance to basic human needs, BHN. This nature of Japan's aid contrasts with a poli-tically-oriented aid or so-called strategic assistance. The USA, for example, extends one-third of its total bilateral ODA to Israel and Egypt. France extends over 80 per cent of its bilateral ODA to previous colonies and the UK directs over 60 per cent of its bilateral ODA to British Commonwealth countries. Any projects with a strategic nature are closely scrutinised in Japan, not to speak of those of a military nature. One may recall that the present Constitution of Japan renounces war as an act of state and pledges the non-use of force in settling international disputes. This commitment is construed so that the selling of arms is outlawed and, consequently, financial support for any military undertaking is forbidden. The exceptional circumstances of the 1990–1 Gulf Crisis occasioned the indirect financial support of UN-approved military activities.

Japan seems to have successfully convinced the recipient countries of the above nature of its ODA and is pleased to receive reports which say that the developing countries are welcoming the politically non-tied aid of Japan. It is true that there are arguments in Japan that the nature of ODA should be further modified, but such changes are not easy to affect. The implication of the developmental and humanitarian dimensions of ODA, as an essential element of Japan's aid to the Middle East is quite vital, as the region is politically volatile and the direct use of force is common. The political instability of the region makes it necessary for Japan to hold to its principles with great determination.

Shortage of manpower

One feature of a short history of Japan's aid has been the appearance of shortages of professional manpower. It has proved to be a serious constraint on the expansion of Japan's aid. The increase of staff in the JICA, OECF and some departments of the ministries related to ODA has been very contained, as a result of general reductions in staff as a part of the 'administrative reform'. Experts on developmental questions are much in demand and proposals to establish an International Development University and other measures to provide training in development studies are given continuous consideration. The aim is to provide, at a postgraduate level, courses in a wide range of subjects including economics, social sciences and humanities, with practical training in economic co-operation. Non-governmental organisations, NGOs, are also few in number compared with European NGOs such as the Oxford Committee for Famine Relief and Christian Aid in the UK (the amount of capital fund of NGOs per capita: USA $6.7, UK $3.9, Japan $0.8). In Japan, there are over 270 NGOs registered, but a considerable portion of the activity is organised through Buddhist agencies working for Cambodian refugees in Thailand.

Japan finds that the oil-producing countries in the Middle East are too wealthy to be provided with either grant aid or soft loans. This means that the only modality available is technical co-operation. And this is the very field where manpower of all kinds is most required. The training of professional staff and experts and directing them to the Middle East will naturally take some time, by which time a new page to Japan's aid to the region will have been turned.

THE MIDDLE EAST AND AID: FRAMEWORK AS A RECIPIENT

Modalities

The diverse economic circumstances of the countries in the region, particularly the very different levels of gross national product and stages of development, will determine the modalities applicable to each country. A reference was made earlier as to the modalities of aid available in Japan's aid scheme, namely grant aids, soft loans and technical co-operation. The breakdown of Japan's aid to the Middle East by country and category is as shown in Table 6.2.

Technical co-operation only is extended to the oil-rich countries, such as the United Arab Emirates, Algeria, Oman, Qatar, Kuwait, Saudi Arabia, Libya and Bahrain. Soft loans and technical co-operation are extended to Jordan, Syria, Tunisia and Turkey, because they enjoy a relatively high level of national income. Fully-fledged recipients are Egypt and Morocco where they enjoy all three modalities of aid. Other LLDCs like Sudan and Yemen only receive grant aid and technical co-operation because of the difficulties of loan repayment. Iran and Iraq are entitled to receive all three kinds of aid, but because of the fluid situation on the ground, more caution must be employed in decision-making. The 1990–1 Gulf Crisis and hostilities created a new and very challenging scenario. Israel had achieved a high standard of living, with a gross national product (GNP) per capita of $6, 817 by 1987, a level which disallows any economic aid.

The above categorisation is a general one, and there are exceptional cases where a particular need is recognised on the basis of interdependence and humanitarian considerations. One of the important criteria in this categorisation, however, is the standard set by the International Development Association of the World Bank. For example, the maximum GNP per capita (in 1987) was $940 to qualify for grant aid for the fiscal year 1989, and was $1,940 to qualify for soft loans.

Development model

Oil-rich countries were successful in attaining high standards of living in a very short period of time. This is not, however, a type of development which Japan considers a model for developing countries. Such good fortune will not come to most of the developing countries. On the contrary, countries such as Egypt and Turkey, which have tried hard to industrialise their economies, are much closer to the model of development with which Japan is familiar. These two countries, however, are presently enduring painful times with the triple problems of fiscal deficits, international trade imbalances and accumulated debts. Neither country is well placed economically for rapid economic development. Egypt and Turkey are the two biggest recipients of Japan's aid in the Middle East.

In this context, the ASEAN countries offer an excellent contrast, because their development has been based upon the policies of industrialisation, market-oriented economic policies and export-promotion, and they appeared as the vanguard of Japan's aid efforts. In addition they provided the model for development with Japan's aid, but they also had a very strong mutual influence on one another. Korea, Hong Kong and Taiwan are examples of this style of economic development. It may be argued that the biggest economic activity in the Middle East throughout history has been trade. A trader can entertain a dream of becoming a millionaire overnight if his merchandise is traded during a boom. This trading tradition is still widespread in Middle Eastern countries. Steady and precise capital and human inputs are needed for industrialisation, and they are not commonly available in the countries of the region. As a result Japan does not find it easy to create economic partnerships in the Middle East. Japan is still in search of a development model, indigenous or otherwise, as a basis for relationships with the countries of the Middle East.

Table 6.2 Japan's bilateral ODA (net disbursement, 1988)

	Grant aid	*Technical co-operation*	*Loans*	*$ million bilateral total*
Middle East				
Bahrain	0.00	0.51	0.00	0.51
Iran	0.00	2.20	0.00	2.20
Iraq	0.00	2.30	−12.43	−10.13
Israel	0.00	0.38	0.00	0.38
Jordan	0.31	8.81	5.39	14.52
Kuwait	2.30	0.52	0.00	2.82
Lebanon	0.00	0.19	0.00	0.19
Oman	0.00	1.97	0.00	1.97
Qatar	0.00	0.46	0.00	0.46
Saudi Arabia	2.99	3.46	0.00	6.45
South Yemen	0.73	1.01	−2.10	−0.35
Syria	0.35	4.98	101.74	107.07
UAE	0.00	1.70	−0.13	1.56
Yemen	9.91	2.37	13.66	25.93
Algeria	0.00	1.31	−4.67	−3.36
Libya	0.00	0.04	0.00	0.04
Morocco	9.74	8.22	10.17	28.13
Tunisia	0.66	2.28	33.70	36.65
Egypt	43.88	17.05	111.98	172.90
Sudan	55.89	3.68	0.00	59.57
Turkey	0.34	8.55	125.56	134.45
Others	0.00	9.54	0.00	0.54
Total	127.10	72.53	382.87	582.50

Source: MOFA, *Japan's ODA,* 1989.

Bonds with the west

The bonds here refer in the first instance to the relations based upon economic aid. Among twenty-two countries in the Middle East, there are only four countries, Iraq, Qatar, Syria and Bahrain, where Japan stands as the biggest aid donor. Out of the same twenty-two countries, the USA is the biggest donor in seven countries and the FRG in five countries. When we turn to Asia, out of twenty-four countries, Japan stands as the biggest donor in fourteen countries. The biggest recipient of Japan's aid in the Middle East is Egypt, where Japan comes only third, after the USA and Germany. All the figures above come from the 1987 rankings, and have

Table 6.3 The amount of bilateral ODA to the Middle East in 1987

USA	$2,632 million
(50.7 per cent of all ODA by DAC countries)	
FRG	$785 million
Japan	$526 million

Note: All figures are on a net disbursement basis.

been cited here to show that the relations of the Middle East, based upon aid, are stronger with the western hemisphere than with Japan.

The close relations with the west are natural because the Middle East is geographically closer to the west and it is historically more linked to the west than to Japan. These are the 'bonds' referred to here. There is other evidence to support the broad statement that the Middle Eastern countries are more inclined to the west than to the east. It is plain that many more students are interested in studying abroad in Europe or the USA than in Japan, and the number of Middle Eastern visitors to Europe and the USA is far more than those visiting Japan. This general situation has consequences for relationships which concern economic aid. An example of the difficulties faced by Japanese agencies can be found in the expansion of technical co-operation in the Gulf where it is the only possible modality of aid. Not only is there the professional manpower problem mentioned earlier, but there is also the problem that trainees from the Gulf countries prefer to go to Europe or the USA rather than to Japan for graduate and other training. There is clearly scope for co-operation between donors in the area of training. A model of the type of co-operation envisaged is the establishment of the Veterinary Faculty of the Zambia University. There Japan extended grant aid of facilities and equipment, and the UK and Japan both extended technical co-operation to enable the faculty to operate.

ACHIEVEMENTS AND SOME PROJECTS

Achievements

Japan extends aid to the Middle East both bilaterally and through international organisations. The amount of bilateral ODA to the region in 1987 is shown in Table 6.3.

Sixty-five per cent of Japan's aid was extended as loans, 22 per cent as grants and 13 per cent as technical co-operation. Loans were extended in the main to enforce infrastructure facilities, such as transportation, energy and communication systems. Grants were provided to basic human needs projects in the fields of food, agriculture, medicine and water supplies. Technical co-operation covered various fields of planning and administration, public works such as broadcasting, fishery, mining, sanitary and medical service and even computer and some high-technology fields. The major recipients in 1988 were Egypt ($173 million), Turkey ($134 million), Syria ($107 million) and Sudan ($60 million). Since soft loans are far bigger than grants or technical assistance in aggregate amount, the three top recipients are all big borrowers. However, for Sudan, only grant aid and technical co-operation was extended. As far as the order of recipient countries is concerned, Egypt has been the top recipient for many years consecutively but the rest of the order has been changed from time to time. Because of the difficulties which Iran and Iraq have had as a result of military conflict, both of which used to be big recipients of soft loans from Japan, they were considered to be capable of absorbing large loans and some other candidates may now be graded up. Turkey enjoyed this opportunity for a couple of years in the past and Syria did the same in more recent years. Total ODA to Syria from Japan was $7. 7 million in 1986, $45.1 million in 1987 and $107.1 million in 1988, out of which loans amounted to $5.8 million, $42.3 million and $101.7 million in respective years.

Some projects

The Education and Culture Centre, including the Opera House in Cairo, was inaugurated in October 1988. This project was agreed on the occasion of the visit by President Mubarak to Japan in 1983, when some prestigious project was looked for. It cost $43 million, and was completed after three years of construction in the Gezira suburb on one of the most prominent and accessible sites in the city. It is assessed that this was a successful project, and that it contributed to the promotion of cultural and educational activities of Egypt. It also has auxiliary facilities such as the Exhibition Hall, the Library, the Outdoor Theatre and the Smaller Performance Hall. All those who were involved in the enterprise encountered obstacles, because it was necessary to master two arts in embarking on the design and implementation of the project, namely, in the design of modern Islamic architecture, since Egypt wished to have a building in this idiom, and in the opera house design. No Japanese contractor had had experience in constructing a major opera house. Japan even undertook to carry out some technical co-operation by training experts to utilise the facilities of this modem centre. In spite of all this effort and a positive assessment, it is now felt that emphasis of Japan's aid should be upon BHN items once again, rather than this type of cultural prestige project.

In Turkey the Fatih Sultan Mehmet Bridge, so-called 'The Second Bosphorus Bridge' was completed in July 1988, with soft loans of $4.4 billion, and private finance of $120 million. This project attracted some international attention because of the intense competition by contractors. A group of Japanese companies signed a contract with Turkey but the design was contracted to a British consultant and an adjacent road construction was contracted to some Italian and local Turkish enterprises, giving the venture a strong international character.

In Saudi Arabia a petrochemical project at Al-Jubayl was successfully completed in 1985 after the lapse of fifteen years since the first Saudi proposal was made in 1970. The entire project, at a cost of $1.5 billion, was co-financed by Japan and Saudi Arabia. Since the government fund was still available at that time to Saudi Arabia, $98 million was extended for equity investment and the rest of the Japanese fund capital was financed from the private sector. The Saudi counterpart was a well-known agency—The Saudi Basic Industry Corporation, SABIC.

In Iran a petrochemical project was commenced at Bandar Khomeini. The project came to a halt in the 1980s as a result of the Iran-Iraq Conflict and it was abandoned in 1989 by the cancellation of the joint venture contract. Though it started as a project on a private enterprise basis, it became a national project with a $1.3 billion government loan. The construction work was suspended in 1979.

When in 1987 some foreign ships and tankers were attacked in the Gulf, an international effort was needed to secure such a vital channel to world economy. Japan decided, in October 1987, to establish with the co-operation of Gulf Co-operation Council (GCC) states a wireless hyperfix system at a cost of $8 million, which would enable vessels to find their location and navigation routes speedily and accurately, so that they could avoid any mines spotted in the sea-ways. The system was ordered from a British company, RACAL, and it was called the Navigation Safety System. Japan had decided at the same time to contribute a special fund to help mediation efforts by the Secretary-General of the United Nations over the said conflict. They constituted an exceptional grant but it was much welcomed in the international arena and was another example of Japan's approach to peace-making co-operation through non-military means.

Japan also directs aid through UN agencies. In the fiscal year 1989, the following aid was extended through UN agencies (see Table 6.4).

Mention must be made of the reopening of the Suez Canal. Immediately after the 1973 War was ended, operations to reopen the canal began with a considerable soft loan from Japan. A Japanese company has also worked on the second phase of the expansion plan, by which the entire canal will have a separate lane for each direction, thus enabling it to double the tonnage of vessels passing through the canal.

Table 6.4 Aid extended by Japan through UN agencies

UNRWA (United Nations Relief and Works Agency for Palestine Refugees in the Near East) $17 million (direct aid is not extended to the Palestine Liberation Organisation (PLO))
UNDP (United Nations Development Programme) $2 million (Aid for the Palestinian programme)
UNOCA (Office for the Co-ordinator for United Nations Humanitarian and Economic Assistance Programme relating to Afghanistan) $125 million (Aid for the Afghan refugees programme)

SOME OBSERVATIONS ON THE JAPANESE APPROACH

Japan and the Middle East

A relationship between Japan and the Middle East is currently in the making, and Japan is trying to approach the region from many angles, though mainly through political, economic and cultural exchanges. As a growing political player, Japan feels it incumbent to update and improve continuously its understanding of political developments in the region and to adopt an informal position on each and every major event, since political issues have become so interrelated through such bodies as the G7 states of the Economic Summit, for example, which seek mutual support for a unified policy. Japanese political involvement in the Middle East will evolve through such relationships. Economic ties are already evident and some figures illustrate the importance of the relationship. Japan imports nearly 70 per cent of its crude-oil supply from the Middle East, which constitutes almost 10 per cent of all the imports of Japan. The Middle East, with all its cultural heritage and long history, is a region of compelling interest to a large number of Japanese people. There had been a fervour amongst intellectuals to carry out studies on the Silk Road, since such studies satisfied historical curiosity and the pursuit of its roots. The intellectual interest of Japan in the region now goes well beyond this traditional topic of the Silk Road and it is rightly directed at the core of the entire culture and society.

In order to nurture a deeper relationship, much must be done, while at the same time clearly excluding military entanglement. At the government level there are three main means, namely political dialogue, economic aid and cultural exchange. A subsidiary function is, of course, expected from the government to expedite exchanges in private sectors in such fields as trade, investment and cultural events.

Oil and economic aid

Two oil crises in 1973 and 1979 were enough to awaken the Japanese to the importance of the raw material, the supply of which used to be taken for granted, as well as to the significance which the Middle East region had assumed for Japan and the other industrial nations. The immediate measures taken by the Government of Japan were successive visits to the region by leading figures including the then Prime Minister and other ministers. Another measure taken was the expeditious expansion of economic aid. The share of Japan's ODA to the Middle East was only 0.8 per cent in 1972. But it grew to 10.6 per cent in 1975 and 24.5 per cent in 1979. During the same period the ODA amount disbursed increased ninetyfold. This level of ODA was, however, much more stable during the 1980s when the share was maintained around 10 per cent. The exceptional share became possible in the 1970s because the oil-rich exporters were then still eligible to receive soft loans in huge amount, whereas in the 1980s and onwards they are not entitled to such a flow of investment.

That Japan's aid is not at all directed at securing oil from the Middle East will become clear when the top ten countries involved in 1988 are reviewed, namely, Egypt, Turkey, Syria, Sudan, Tunisia, Morocco, Yemen, Jordan, Saudi Arabia and Kuwait. The biggest recipients have been those whose income standards are at the middle level and thus are able to receive soft loans. Other LLDCs like Sudan and Yemen are also big grant-aid recipients.

It might be a fair conclusion to say that one dimension of Japan's approach to the Middle East is through the extension of aid for developmental and humanitarian purposes, with a constant emphasis on Egypt as a major power and a stabilising factor in the region. And in so doing, Japan seeks a better co-ordination among like-minded countries. This task requires consultation and co-ordination between major donors on aid programmes. Since oil-producing countries became too wealthy to be entitled to receive loans or grant aid, the only remaining source of assistance is for technical co-operation. There are difficulties in expanding such assistance and it is necessary for Japan to engage in political, cultural and private economic activities to mobilise, and then to enhance and strengthen, Japan's relations in the region.

Environmental questions and Japan's aid

Developing countries often have extreme environmental problems which may be detected late. The economic circumstances of developing countries are such that they have no resources to ameliorate environmental degradation.

Japan has made significant contributions to various international agencies that work to reduce environmental problems in developing countries. In 1988 Japan contributed $4.8 million to the UN Environmental Programme (UNEP), as the programme's second biggest donor. It also contributed $1.3 million for a forest resource survey project of the Food and Agriculture Organisation, FAO. Japan is also an active member in the International Tropical Timber Organisation, ITTO. Bilateral aid also covered environmental fields, like pollution, water supply and sewerage systems, urban hygiene, water resource development, forest conservation and disaster prevention.

Environmental considerations figure increasingly in aid projects and the Aid Study Group on Environment was established in June 1988, within JICA, and in the same year an environmental adviser was appointed to OECF.

Industrialisation and urbanisation must entail problems of pollution and public nuisance. There are, however, issues previously experienced by developed countries, which are amenable to ameliorating measures. The concept of sustainable development must be pursued by both aid donors and recipients. But now we face other global issues such as global warming, the destruction of the ozone layer and acid rain. Japan has resolved to emphasise co-operation and aid in ways that help developing countries to cope with these transnational questions, as well.

EXPLANATION OF ABBREVIATIONS

DAC and UN categories

When referring to the country categories by the Development Assistance Committee and the United Nations, it has been done according to the DAC documents (DCD April 1989) and the resolution of the 43rd UN General Assembly.

The DAC categories

1 Low-Income Countries (LICs): countries/regions with GNP per capita in 1987 less than $700 (sixty-seven countries/regions). Forty-two countries classified by the UN as LLDCs are included in this category.
2 Lower Middle-Income Countries (LMICs): countries/regions with GNP per capita in 1987 between $700 and $1,300 (thirty-one countries/regions).
3 Upper Middle-Income Countries (UMICs): countries/regions with GNP per capita in 1987 more than $1,300 (sixty-five countries/ regions).

UN category

Least Among Less Developed Countries (LLDCs): the least developed countries amongst the less developing countries. Forty-two LLDCs have been recommended by the UN Committee for Development Planning according to its standards, and approved by the UN General Assembly as of December 1988.

ODA: Official Development Assistance

1 The flow of resource which meets the following tests: (i) Resources provided by official agencies or by their executive agencies, (ii) Its main objective is the promotion of the economic development and welfare of developing countries, (iii) It is concessional in character to avoid severe burden on developing countries and conveys a grant element of at least 25 per cent.
2 It consists of capital, grant assistance, technical co-operation, capital subscriptions and contributions to the UN agencies and international financial institutions (all defined as grants) and governmental loans.
3 ODA alone is internationally recognised as aid in the genuine sense. The international target of ODA/GNP ratio is set at 0.7 per cent.

GE: grant element

An index of financial terms of capital assistance. The grant element of a loan on a commercial basis (10 per cent interest rate) is 0 per cent, and as the terms (interest rate, repayment period, grace period) are more alleviated, the figure of the GE gets higher, reaching 100 per cent in the case of a grant.

Untying

Not limiting (tying) the procurement of goods and services for contributions to international organisations and for bilateral ODA to the contributing countries and donor countries. There are varieties such as generally untied aid, not limiting the procurement at all, and LDC untied aid, limiting the procurement to the donor and the developing countries. JICA is the sole government agency of Japan whose main function is to extend technical co-operation to development countries based upon agreement reached between the Japanese Government and the government of these countries.

OECF: The Overseas Economic Co-operation Fund

The OECF is a governmental institution to promote Japan's development assistance activities for developing countries, mainly providing their governments, governmental institutions and corporations with concessional loans.

The Middle East here is defined as the area horizontally from Afghanistan to Morocco and vertically from Turkey to Sudan, covering twenty-two countries.

Appendix: Japan's aid policy towards the Middle East following the Gulf Crisis

An attempt has been made here to outline some of the major developments in Japanese aid policy towards the Middle East following the Gulf Crisis. Circumstances and relationships are evolving and are in the making. It is not my intention to suggest that the basic traits of Japanese aid policy towards the region discussed in this chapter underwent a drastic change in 1990–1. Rather, this supplementary paper attempts to show that Japan's approach to the region discussed in this chapter has proved to be quite viable.

THE GULF CRISIS AND A NATIONAL CONSENSUS

The Gulf Crisis posed a new type of challenge to Japan. It appears that its impact upon society was even deeper there than in the USA and the UK.[1] Japan, because of the very negative legacy of pre-war history, has been determined to carry out its international role through strictly non-military means and Article 9 of the Constitution stipulates: 'The Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.'

The Gulf Crisis was the first case where Japan was called upon to participate actively in major military operations, albeit through logistics, medical and communication support to the coalition forces and through a very substantial financial contribution. Neither the Korean War, nor the Vietnam War raised such an issue. Further, the cases of the Iranian hostage-taking of the American diplomats in Tehran and of the Soviet invasion of Afghanistan both required prompt decisions to participate in sanction measures and Japan exerted strenuous diplomatic efforts to end the Iran-Iraq War. But none of these conflicts presented Japan with the dilemma of being involved as an active supporter of a war.

The gravity of this new challenge was well reflected in the area of aid policy and it suffices to quote here a few paragraphs from 'Summary of Overview, Japan's White Paper on ODA'.[2]

> Official development assistance is an important component of Japan's foreign policy, and Japan is determined to make ODA a medium for its participation in these order-building efforts of the world. This determination was put to the test during the Gulf Crisis. Japanese aid during the crisis was designed to contribute promptly, flexibly, and directly to the restoration of peace in the region; Japan will need to continue improving on its aid schemes and strengthening its implementing capacity.
>
> The Gulf Crisis and the dramatic reforms in Central and Eastern Europe and the Soviet Union have led to the emergence of a national consensus in Japan that this country's aid should play a more active role in the achievement of world peace, stability, and democratisation.

The Gulf Crisis has literally shaken the sinews of Japanese society which aspires to be an honourable participant in the international community, and has made Japan resort to the wide variety of options in ODA available to an economy able to deploy a considerable volume of funds for international assistance. It is appropriate here to outline the aid measures extended by Japan during the Crisis period.[3]

Economic aid

Aid of $2.5 billion was extended to the countries in the region which were most seriously affected by the conflict—Egypt, Jordan, Turkey and Syria. Other countries which suffered economically also received the flexible loan totalling about $10 billion including Sri Lanka, the Philippines and India.

Relief for refugees

A contribution of $60 million was made to such international organisations as the Office of the UN Disaster Relief Co-ordinator (UNDRO), the International Committee of the Red Cross (ICRC) and the International Organisation for Migration (IOM), for their relief and rescue work and transporting displaced persons. Other provisions such as blankets, medicines, power generators and so on, were extended to Jordan and Iran.

Japan responded to the challenge of the Kurdish refugee crisis which started in March 1991, by immediately sending $100 million to UNDRO. The Japan Disaster Relief Team was dispatched to Turkey and Iran six times and the team offered medical services in remote mountainous areas. In addition, a number of other types of assistance were extended to both countries.

Economic reconstruction

Emergency aid material was sent to Kuwait immediately after its liberation and Japanese experts participated in the World Health Organisation Assessment Mission on the health situation in Kuwait. A $500 million loan was also pledged to Syria to ameliorate its problems arising from the need to import equipment for its power-station project.

Environmental co-operation

The serious environmental consequences of the Gulf conflict such as the spillage of oil and of air pollution caused by the firing of 800 Kuwaiti oil wells also required a response. Japan sent a number of expert teams under a scheme of technical co-operation to assist with the retrieval of crude oil, the protection of desalination plants, as well as in scientific studies of air pollution and its effects on vegetation and wildlife, and of beach pollution and cleansing. Oil booms, oil absorbent and oil skimmers, plus ten skimming vessels were sent to Saudi Arabia, Qatar and Bahrain. Finally, $261 million was contributed by Japan to both the International Maritime Organisation's special fund for the study and amelioration of the oil pollution problem in the Gulf and the UN Development Programme (UNDP) emergency action programme.

From the above outline of Japanese aid measures employed at the time of the Gulf Crisis, it is evident that all possible means of assistance under the present scheme of economic co-operation were deployed. In addition, the Japanese willingness to play an active role was confirmed by it being the first to announce its contribution to the IOM and especially by the level of its contribution which almost satisfied the IOM's initial financial requirement to get refugee rescue works started immediately.

Another consequence of the Gulf Crisis is that efforts are being made to enhance Japan's capability in coping with similar crisis situations by means of economic aid. The call to reinforce the Japan Disaster Relief Team (JDR) is an element in this response. The JDR was established in 1987 and is composed of three teams of rescue experts and medical care. The teams are designed to enable technical co-operation in the countries in which they are deployed. In the Gulf Crisis eight teams of the JDR (eighty-four staff members) were dispatched to address environmental problems, as well as for relief work for the Kurdish people. Presently nearly 2,000 men and women, including civil servants and private individuals, are enlisted for emergency actions, and a bill which will enable the Japan Self-Defence Force to participate in the JDR for its rescue works and transportation is being studied in order to make the JDR more speedy, efficient and self-sufficient.

Another very important development accelerated by the Gulf Crisis was co-operative relationship between the government and various non-governmental organisations for overseas assistance (NGO). In April 1991 a conference on the relief works for the Kurdish refugees was convened and attended by staff from the Japanese Ministry of Foreign Affairs, from relevant international organisations and from Japanese NGOs. And soon after the government decided to arrange two chartered flights to Iran and Turkey to send emergency material gathered and managed by NGOs, such as blankets, medicines, powdered milk, rice, hardened bread, clothes, and so on.

Japanese people have largely achieved a national consensus during the Gulf Crisis in this unfamiliar area of international affairs and supported the use of schemes of economic co-operation to reduce tension and deal with the consequences of conflict. The adoption of these international responsibilities, legitimised by a general popular approval, hastended to further enhance Japan's ODA performance.

FOUR PRINCIPLES OF ODA

The former Prime Minister, Mr Toshiki Kaifu, announced a new set of guidelines for future ODA in April 1991. Since the statement itself is quite self-explanatory, it is relevant to quote it completely:

1 The ODA (Official Development Assistance) of Japan is provided based upon (1) humanitarian consideration toward such problems facing the developing countries as poverty and famine that cannot be ignored and (2) recognition of the fact of interdependency among the nations of the international community in the sense that stability and further development of the developing countries are indispensable to the peace and prosperity of the entire world.

2 In the course of the Gulf Crisis and its aftermath, questions on the armaments of the developing countries, the necessity of enhancing international efforts towards arms control and disarmament etc. have attracted attention both inside and outside Japan. It is, therefore, considered appropriate and important to clarify the basic view of the Government regarding its ODA in relation to such questions.

3 Based upon the basic ideas mentioned in paragraph 1 above, the Government of Japan henceforward will pay full attention in the implementation of ODA to the following points:

- trends in military expenditure by the recipient countries from the viewpoint that the developing countries are expected to allocate their own financial, human and other resources appropriate to their economic and social development and to make full use of such resources.

- trend in development, production etc. of mass destructive weapons by the recipient countries from the viewpoint of strengthening the efforts by the international community for prevention of proliferation of mass destructive weapons such as atomic weapons and missiles.
- trend in the export and import of weapons by the recipient countries from the viewpoint of not promoting international conflicts.

4 Efforts for promoting demoralisation and introduction of a market-oriented economy and situation on securing basic human rights and freedom by the recipient countries, and make its decision on aid, taking into account comprehensively such factors as bilateral relations with the recipient countries, the international situation including the security environment in which the recipient countries are placed, aid needs, economic and the social situation of the recipient countries etc.

The above statement must be viewed within the context of the end of the Cold War, which brought about a general reduction in military expenditure and recruitment[4] and which established democracy and free economic systems as the almost universally recognised basis for national and international intercourse. As an application of the Four Principles, Japan took the initiative, in September 1991, to host a meeting of the Assistance Group to Mongolia, which was making efforts to democratise and introduce a market-oriented economy. Japan also announced its decision to suspend its aid to Haiti, where a military coup had taken place in October 1991. Applying these principles may, however, prove to be much easier to say than to do.

First, some of the developing countries might not have reliable statistical information on their weapons. Even if such data are provided, they cannot be taken as absolute and automatic criteria for decision-making on allocations, since other aspects such as the security environment in which a certain country finds itself must also be taken into account. Second, each country has a right to self-defence and is fully entitled to trade weapons. Excessive trade in weapons will certainly lead to conflicts and, therefore, should be restrained. But it is clearly very difficult to define what is 'excessive'.

The weapons trade is just one of the more complicated features encountered in attempting to apply the principles. Japan none the less will pursue an effective assistance policy through sensible restraint on the trade and investment in arms by a recipient country by making the key points contained in the principles, which had not been referred to in any direct and clear manner in the past.

Unfortunately, in addition, there exist no definite indicators of successful implementation of democracy and of the market-oriented economy. Japan hosted the International Symposium on Democratisation and Development Assistance in October 1991, in which about thirty officials and experts gathered from major donor countries and developing countries. Through the symposium the following points were stressed:

(a) The *process* of democratisation is important.
(b) Each country should be treated separately in the light of its history, culture and circumstances.
(c) If aid is to be made conditional, positive rather than negative conditioning should be adopted.
(d) There are no political models, in contrast to economic reform, where there are several models which are commonly accepted as a basis for policy. Donors will have to be patient.

It is clear that support of efforts in democratisation and the establishment of free economies is widely accepted as are pre-conditions for the extension of assistance for the achievement of both goals. But it behoves those involved in the implementation of aid policies to be careful in deploying aid on the basis of a simplistic negative correlation between democratisation and instability or a possible contradiction between democratisation and structural adjustment.

Linkage between the task of democratisation, the establishment of market-oriented economies and human rights and the role of development assistance has been much promoted by the British Government under a call of 'Good Government' or 'Good Governance' policy. This policy was endorsed by G7 in the Economic Declaration in the London Economic Summit in July 1991.

As to the linkage between military aspects and development assistance, Japan has probably been the most articulate. This linkage was quickly appreciated in the international arena and expressed in the Organisation for Economic Co-operation and Development's (OECD's) Ministerial Level Communiqué in June 1991. It was also reflected in the 'Declaration on Conventional Arms Transfers and NEC Non-proliferation' issued at the London Economic Summit in July 1991.

'Good Government' policy and the Tour Principles' are now widely recognised internationally and the Middle Eastern countries will be scrutinised according to the guidelines emerging in the debate on criteria for the allocation of ODA. Donors are reminded to 'be patient', but an excessively high military build-up and an obvious impediment to democracy and free economy will not go unheeded in future aid programming. Furthermore, it should be stressed that a more positive sign on the part of the Middle Eastern governments of efforts in military reduction or in promoting democratisation and the establishment of a free economy will have to be supported by most major donors in the world, including Japan.

MIDDLE EAST PEACE AND JAPAN'S AID

The initiation of Middle East Peace Talks in Madrid on 30 October and 1 November 1991 was an epoch-making event, though the difficulties faced in coming quickly to a successful conclusion are enormous and the whole process time-consuming. Soon after the end of fighting against Iraq, in March 1991, the Palestine Liberation Organisation (PLO) found itself discredited in the international arena and the three-year-long *Intifada* was stalemated; Jordan's society and economy were staggering; Syria had already lost its economic and military support from Moscow. Israel's economy was deteriorating and its security strategy to rely solely on military power had been questioned as a consequence of attacks of Scud missiles during the Gulf Crisis, while Egypt, once again with a seat at the Arab League, was anxious to regain its leadership of the Arab World. Thus the Gulf Crisis paved the way for the Peace Talks and the chance was not missed by the United States Government.

Japan was called upon to participate in the peace-making process, particularly in the so-called third stage of a multilateral conference on regional issues. These multilateral talks, following the start of the direct negotiations, were intended to cover items of arms control, security, water resources, refugees, environment, economic development and others, in order to promote confidence-building among the parties to further progress in the direct negotiations, and thus to create an environment conducive to peace. The invitation was extended to Japan by the United States and the European Community and Japan believes that there are a number of fields where Japan's experience and knowledge can be utilised for solving these issues.[5]

The multilateral conference started at the end of January 1991 in Moscow. It looks certain that Japan will be resolved to do its utmost, including once again a full use of its economic co-operation scheme. Japan also believes that 'by participating in the efforts to solve these issues, Japan could appropriately co-operate towards the achievement of peace, which would constitute an international contribution to be expected of Japan'.[6]

Japan has taken two other measures over questions relating to peace-making in the region by way of economic co-operation. One is aid to the Palestinians. Japan has established the Japan-Palestine Development Fund within UNDP to promote socio-economic development in the West Bank and Gaza Strip and it had contributed $7.1 million to the Fund by the end of 1991. Japan continues to contribute a substantial amount to the UN Relief and Works Agency (UNRWA)—$10 million every year in cash and nearly $7 million in kind. Technical co-operation is also extended to the Palestinians through UNRWA. And at the time of the Gulf Crisis, Japan extended an additional $10 million approximately to procure emergency food supplies for UNRWA.

Second, Japan is easing the problem of accumulated debt in Egypt (approximately $46 billion in 1990). Egypt's economy further deteriorated during the Gulf Crisis. Major sources of revenue such as remittance from Egyptian workers in Iraq and Kuwait, income from tourists, toll fees from the Suez Canal and foreign financing of projects in the country shrank and, in addition, returning workers totalling almost 600,000 created another financial burden. Egypt's co-operative stance through the Gulf Crisis, however, resulted in the cancellation of a $6.7 billion military debt to the USA and contributed substantially to a general mood of support for the Egyptian case. In May 1991 the International Monetary Fund (IMF) finally reached an agreement with Egypt on the provision of stand-by credits, the negotiation of which extended from the middle of 1988. Based upon the agreement, major creditors had gathered in Paris and came to an agreement to reduce substantively 50 per cent of official debts. Egypt, being a medium-income country and not one of the least developed countries, was not a top priority internationally with respect to debt relief, but the hardships brought about by the Gulf Crisis contributed to shaping a new approach to the Egyptian case. Japan was one of the major creditor countries. As mentioned in the main text of this chapter, Japan attaches great importance to Egypt as the single largest recipient in the region, with a hope that its development will exert a stabilising effect upon other countries in the area and exert positive influences in the Middle East peace process.

ODA IN NEW INTERNATIONAL SURROUNDINGS

Since the Gulf Crisis it is possible to observe a number of significant international developments, which will or might have considerable impacts upon the future ODA performance of the major donors, including Japan. They may not be specifically related to the Middle East but they are so important globally that they cannot be ignored and they will immediately or eventually be of regional significance. Environment, migration, narcotics, the disease of AIDS and other issues, which are referred to as 'global problems', are looming larger and, by their nature, they demand closer co-operation between developing and developed countries. We shall focus here on environmental questions.

A question of environment is now gathering momentum with the convening of the largest and the most comprehensive meeting on the question scheduled in June 1992, the UN Conference on Environment and Development (UNCED). The large-scale pollution caused in the Gulf Crisis was, in fact, only but an act of a longer drama. Relations between 'environment and development' are complex and multifarious but a problem arises, particularly when there are contradictory pressures identified with diverse interests. Thus a motto often referred to is 'a harmony of the two and an achievement of sustainable development'.

Three dimensions may be noted concerning environment and development. One is taking into account environmental issues in development projects. This can be done, for example, by having an environmental expert working in a study mission or by carrying out consultancy studies on a specific project with environmentally-orientated NGOs or with authorities competent in assessing environmental impacts. The second is involvement in development projects which aim specifically at environmental problems. Projects to solve air and water pollution fall into this category, as well as a large number of other projects on housing, water and other natural resource conservation. Third, there are global or regional dimensions such as global warming, the destruction of the ozone layer or the large-scale conservation of natural and other forests. These comprise the agenda items in the UNCED meeting, and the political as well as financial positions of many countries concerned will be clarified at the conference by addressing these issues. Since the expected financial burden implied by the measures reached to ameliorate the problems is potentially enormous, much of this burden will have to be borne by industrialised countries. The development of international policy with respect to financing relevant projects from national ODA allocations was promoted by UNCED, but the debate is ongoing in the major donor countries, especially because of the importance of the environment in all development projects.

In the case of Japan, the rate of environment-related ODA is steadily increasing; it was 4.3 per cent in 1986, and it reached 12.4 per cent in 1990. And at the time of the London Economic Summit in July 1991, a new ODA Policy for Environment was announced, in which four basic principles were presented. First, co-operation between developing and developed countries on global issues was essential. Second, Japanese technologies and experiences must be utilised to support self-help efforts on environment. Third, project-funding for environment must be further enforced. And fourth, the problems of poverty and population-explosion would also have to be tackled since they are at many times inseparable from environmental problems. Japan would strengthen ODA activities in the area of the environment but the precise relationships between the cost-sharing of global issues and Japan's ODA activities will continue to evolve.

Another important development is the situation in Central and Eastern Europe and the now defunct USSR, or the Community of Independent States, CIS. The latest aid commitment of Japan to the USSR amounted to \$2.5 billion and a similar amount has also been committed to other

Central and Eastern European countries. They are mostly composed of export finance, trade insurance and technical cooperation. Except in the last area of technical co-operation, they are not yet counted as ODA. Though the term of 'aid' or 'assistance' is used, it had not, by 1992, been recognised by OECD as a part of ODA, due partly to their fairly high level of income or partly to their political and social circumstances. Development in these regions remains a political challenge as much as a financial one to most of the industrialised countries. In particular the G7 countries have supported the efforts of the peoples in these regions to establish democracy and free economies, but it is also evident that the G7 countries have their financial limits and it is the people in the regions themselves who will bear the major burden of innovation and development.

A question often asked by officials in countries which have been traditional recipients of ODA is, will future aid to these regions be a constraint to an enlargement of ODA activities? And will there be a diversion of funds from ODA to assist these regions? Till now it is reported by OECD that no such diversion is observed and that OECD will monitor future flows of assistance to the CIS and to Central and Eastern Europe.

One of the hottest issues in the international financial circle is a problem of 'credit crunch'. A number of major demands have come together in the early 1990s such as the gigantic needs for capital in Eastern Europe and the CIS, the challenge of global environmental degradation, and in addition the reconstruction of Cambodia and Vietnam, as well as the relief of the appalling economic and social circumstances of sub-Saharan Africa. Industrialised countries, on the other hand, are faced with their own hardships in recovering from recession or in rehabilitating the eastern part of Germany. This overall situation may cause 'credit crunch' to an unpredictable extent.

But some economists argue that such a problem of 'credit crunch' should not be serious. One positive factor is that the general levels of interest rates are going down in 1991 and 1992. Even Germany, facing the challenges of its eastern territories, had the option to lower interest rates in 1992 because of an expected turn of the economic cycle and an expected surplus in its current account. Another factor is a time-frame. All the questions of a global nature and the developments in the CIS will be extremely costly to address and they are at the same time very-long-term issues. Some decades could be required to make a significant impact upon them and the costs will have to be paid in one way or another throughout the decades and not as a one-shot payment. In the shorter term there are some favourable developments. The Gulf states are spending $25–30 billion annually on their reconstruction in 1991–2, although this level of expenditure will cease to swallow capital when reconstruction is complete after a few years. Meanwhile Japan will probably increase its surplus by about $50 billion by

1993 from the 1991 level of about $150 billion. The US will be able to reduce its 1990 current account deficit of about $100 billion during the 1990s. It may be concluded after these considerations that an inadequate supply of capital, or the 'credit crunch' phenomenon, is not a realistic problem in the future.

Whatever may be said about the future, the following are more salient points:

(a) Effectiveness and efficiency are key factors in economic aid. 'Good Government' policy and a scrutiny on the military expenditure and trade in weapons are also vital.
(b) The urgency of aiding LLDCs cannot be overemphasised. Pouring capital funds into a troubled country cannot of itself solve national economic and political problems and it may exacerbate the situation. A well-designed plan, good management and a considered distribution of domestic resources are more vital than foreign borrowings and assistance.
(c) Better performance in trade and increased inward investment in developing countries, must also be pursued through improved levels of economic co-operation.

IN RETROSPECT

The Gulf Crisis proved to be a clear confirmation that what followed the Cold War was the so-called 'Pax Consortis', with the United States being the leading element in the consortium. It also awoke Japan once again and caused the Japanese people to be keenly aware that Japan should play its role in the order-building of the world.[7]

This willingness on the part of Japan to play its role was clear from the beginning of the Crisis by such facts as Japan being amongst the first to denounce officially the Iraqi invasion as a violation of international peace and justice. It also declared a trade embargo against Iraq and occupied Kuwait, including oil therefrom, before the Security Council's resolution of economic sanctions was adopted on 6 August 1990.

Japan's strong resolve to play a more active role in the international community will be partly based on its aspiration to become an honourable participant, commensurate with its economic might and financial competence. But it may be based, in the longer term, on the fact that Japan's growth around the world has reached a stage where complicated international and regional relations and interests and interdependency can neither be safeguarded nor advanced without a substantive participation in many more nooks and corners of the world. Furthermore, Japan is now on many more occasions invited to play a leading role in international fora. Since Japan's power in the main is economic and is devoid of military involvement, economic aid as a foreign policy option has taken on an added importance in fulfilling Japan's aspirations in the international community.[8] The Gulf Crisis has made this point even more unequivocal.

Chapter 7
OECF and the Middle East

Yoshitaro Fuwa

INTRODUCTION

The Overseas Economic Co-operation Fund (OECF) is a Japanese governmental agency channelling about 40 to 45 per cent of Japan's Official Development Assistance mainly through concessional loans to governments of developing countries. It was established in 1961, and began providing loans to foreign governments in developing countries in 1966. These were known as official development assistance (ODA) loans. Since then, the OECF has been the core financial institution for Japan's ODA. The number of recipient countries and regions in receipt of OECF financial assistance has steadily increased, and as of March 1990 stood at sixty-nine.

The OECF's operations include various types of loans to foreign governments; also equity investment in and loans to corporations engaged in operations in developing countries, and project-related surveys, and so on. Eligibility for loans and equity investment has depended principally on two factors: difficulty in obtaining funds on normal commercial terms from ordinary financial institutions, and the project must be principally intended to promote the economic development and welfare of developing countries.

More than 80 per cent of OECF ODA loans are extended to Asian countries, reflecting the historical background of Japan's economic co-operation, and the percentage to the Middle Eastern countries (including Egypt and Maghreb countries) is less than 8 per cent of the cumulative ODA commitment. In the light of the recent difficult political and economic situations prevailing in the region, further efforts would be necessary by the OECF to increase its project lending in the Middle East as well as in other forms of lending such as structural adjustment loans. The Gulf Crisis and War of 1990–1 have created new opportunities and new challenges.

The OECF's activities do not cover all aspects of Japanese money flow to the Middle East. Its financing activities comprise part of Japan's ODA to the governments of developing countries, such as Jordan, Syria, Turkey, Yemen, Egypt, Morocco, Tunisia and Algeria. In reviewing these activities below, the region is divided into three subregions: the Middle East in the narrow sense, Egypt and the Maghreb countries.

THE MIDDLE EAST IN THE NARROW SENSE

General view of the economic situation

The Middle Eastern countries include both oil-producing and non-oil-producing countries. Because of the decline in crude-oil prices after 1982, the economic performance of oil-producing countries has declined. The non-oil-producing countries are being affected by this decline.

Until the early 1980s the economic growth of most of the region's non-oil-producing countries was assisted quite considerably by increased exports to and economic assistance from the oil-producing countries of the region, together with remittances from nationals working abroad because of the favourable economic performance of those oil-producing countries. However, the declining economic performance of the oil-producing countries has created difficulties for economic management in the non-oil-producing countries of the region. The most urgent task, therefore, is economic restructuring to solve their fiscal deficit and external debt problems, accompanied by measures which will make possible greater political stability and a reduction in the huge military spending in the area. Against this background, OECF loans, especially loans to assist economic structural reform, are greatly needed.

OECF loans to Middle Eastern countries

The OECF up to 1990 provided four countries in the Middle East with loans: Jordan, Syria, Turkey and Yemen. The cumulative total of OECF loan commitments to those four countries amounted to approximately 282, 838 million yen (thirty-seven commitments) as of 31 March 1990, accounting for 3.3 per cent of all OECF loan commitments.

Jordan

In its sixth Five-Year Plan for Economic and Social Development (1986–90), Jordan placed major emphasis on solving the problem of unemployment and reducing its trade deficit. From 1988 the deteriorating balance of payments situation aggravated the country's economic difficulties considerably, but the economy has been doing well since around mid-1989, when debt relief measures were agreed on.

The OECF has provided a total of six loans to Jordan, the first in 1974, for the City Telephone Facility Expansion Project. The total amount of those loans is 48,811 million yen: 23,807 million yen for three telecommunications projects, 11,580 million yen for two irrigation projects and 13,424 million yen for a road project. In addition, the loan agreement for the Human Resources Development Sector Investment Loan (10,381 million yen) was signed in May 1990.

Syria

Though Syria is a country with a socialist economic system, its economic policies also emphasise utilisation of the potential of the private sector. The current sixth Five-Year Plan (1986–90) aims chiefly at the improvement of the productivity of existing projects.

The OECF made its first loan to Syria in the fiscal year 1986, for the Banias Power Station Expansion Project. This project has involved the construction of two 170 MW thermal power stations (the third and the fourth stations). The third power station commenced operation in July 1989, the fourth in December 1989. It is anticipated that the completed project should contribute greatly to eliminating power shortfalls.

Turkey

Since the early 1980s, Turkey has achieved favourable economic growth by implementing a structural adjustment policy. However, the country still faces some economic difficulties, such as its accumulated debt, a high rate of inflation and a deficit in the nation's finances. In view of this situation, the Turkish Government in 1988 introduced drastic economic adjustments, such as measures to curb inflation and to reduce the budget deficit.

The OECF made its first loan to Turkey in 1971, for the Hasan Ugurlu Dam and Hydroelectric Power Project. In December 1989 the most recent agreement was signed for the provision of a loan of 35,200 million yen for the Third Agricultural Credit Project. As a result, the cumulative total for OECF loan commitments to Turkey as of 31 March 1990, stood at 156, 569 million yen: 133,869 million yen for ten projects and 22,700 million yen for two commodity loans. Including debt relief agreed on in the past, the cumulative total of OECF economic assistance to Turkey as of 31 March 1990, came to approximately 164,133 million yen.

Yemen

Yemen has traditionally offset a considerable part of its heavy trade deficit with remittances from Yemeni nationals working abroad, and with economic assistance from foreign countries. The recent decline in crude-oil prices has reduced the remittances from Yemenis working in the oil-producing Arab countries, creating an extremely difficult situation for the Yemen's economy. In 1987, however, exports of domestically-produced crude oil began at last, and the country's economy is currently going through a period of transition.

The OECF's first loan to Yemen, in 1977, was for the Local Water Supply Project. Since then, the OECF has provided a total of four project loans, amounting to 42,350 million yen. The Yemen Arab Republic and the People's Democratic Republic of Yemen united, becoming the Republic of Yemen, on 22 May 1990.

EGYPT

General view of the economic situation

Egypt faces many economic difficulties, such as low economic growth, a budget deficit, a current account deficit and accumulated debt, resulting directly and indirectly from the weakness of world oil prices in the mid-1980s and reduced agricultural production.

To cope with these economic problems, the Egyptian Government has introduced a number of economic policies, such as expansion of the private sector's role, promotion of public sector efficiency and reduction of the current account deficit through improved productivity and export promotion in the second Five-Year Plan, which started from July 1987, and has been carrying out these economic reforms.

Rescheduling agreements have also been constantly on the agenda of the Paris Club to cope with the problem of the large accumulated debt. Negotiations on stand-by credit, as a pre-condition for the holding of a Paris Club meeting, took place during 1990 between the Egyptian Government and the International Monetary Fund. The Gulf Crisis and Egypt's alignment with the UN Coalition forces brought substantial economic benefits. US and Saudi debts were written off and substantial sums were paid by Gulf countries to Egypt.

In Egypt's fiscal year 1988–9 (July 1988–June 1989), the economic situation remained stagnant, making it impossible for the country to extricate itself from its economic difficulties. The rate of gross domestic product (GDP) growth (adjusted for inflation) in that year was positive but very low. The international balance of payments situation worsened: the trade balance deficit grew to $6.5 billion because of increased imports caused by the rising price of wheat and a general decline in the volume of exports, including oil exports, the latter resulting from the decline in crude-oil prices. Although invisible trade earnings, such as earnings from tourism and Suez Canal tolls, increased smoothly, increasing interest payments offset that revenue growth. As a result the current account deficit was $2.7 billion, $1.5 billion greater than in the fiscal year 1987–8.

As regards the internal economy, the reduction of heavy subsidies, one of the major factors contributing to the budget deficit, is needed. Such reduction is being carried out gradually in order to avoid social unrest. As a result of reduced subsidies, the rise in the consumer price index is estimated to have been over 30 per cent, caused principally by a rise in the price of basic foodstuffs and necessities.

OECF loans to Egypt

No new loans were provided in the fiscal year 1989 because of the stagnation of the economic situation of the previous years. Utilisation of the eleventh package loans (23,200 million yen for four projects) was behind schedule by 1990, and increased efforts to promote utilisation on schedule were necessary. The cumulative total of OECF loan commitments to Egypt, as of March 1990, stood at 279,658 million yen: 236,158 million yen for twenty-nine projects and 43,500 million yen for six commodity loans.

In future it will be necessary to study the provision of a new programme such as structural adjustment lending, in addition to the traditional project loans.

THE MAGHREB COUNTRIES

General view of the economic situation

An agreement creating the Arab Maghreb Union (AMU) was concluded in February 1989 by Morocco, Tunisia, Algeria and two other countries. This is a plan for closer social and political ties among the North African countries, in the light of the European Community (EC) market integration in 1992. The AMU is expected to stimulate growth of all five nations' economies.

The Maghreb countries differed considerably among themselves in their economic performance in 1989, largely because of circumstances beyond government control: drought, market trends, commodity prices and so on.

Morocco

Following its high GDP growth rate (10.8 per cent) in 1988, the highest in the 1980s, generated by the increase in agricultural production, Morocco's economic performance in 1989 stagnated, and GDP growth was lower than the level called for by the government plan. As a result of declining export and tourism earnings, the international balance of payments deficit deteriorated in 1989.

Tunisia

Tunisia's 1989 GDP growth is estimated to have been about 3 per cent, considerably lower than that called for by the government plan. Such performance resulted from poor harvests because of the second consecutive year of drought, as well as a large increase in the volume of food imports to compensate for the drop in agricultural production. Tunisia's current account balance of payments which showed a surplus in 1988, turned to a deficit in 1989.

Algeria

It is estimated that Algeria's GDP grew by about 2.8 per cent in 1989, after two years of negative growth. Algeria's international balance of payments in 1989 also showed some improvement. The Government of Algeria continues to carry out adjustment policies aimed at economic recovery.

OECF loans to the Maghreb countries

Cumulative OECF loan commitments to the Maghreb countries as of 31 March 1990 amounted to about 92,957 million yen for twenty-one commitments with the breakdown by country being: Morocco about 40, 407 million yen (eight commitments), Tunisia 40,550 million yen (six commitments) and Algeria 12,000 million yen (seven commitments). Of the total commitments, commodity loans (including SAL-type loans: see below) accounted for 32 per cent. The sectoral breakdown of project loans were: mining and manufacturing (22 per cent), telecommunications (17 percent), transportation (17 percent) and electric power (7 per cent).

In the fiscal year 1989, the OECF provided Morocco and Tunisia with Structural Adjustment Loans (SAL), under co-financing arrangements with the World Bank. These loans are to support the structural adjustment programmes, which are medium-term plans prepared by the governments of the two countries for the liberalisation of their economies.

PERSPECTIVES OF OUR CONTRIBUTIONS TO THE MIDDLE EAST IN THE FUTURE

Recently the OECF expanded its activities dramatically as is shown in Table 7.1. The OECF's outstanding balance as of 31 March 1990 amounts approximately to $34,600 million, which is equivalent to one-third of the outstanding balance of the World Bank (see Table 7.2).

The OECF's geographical distribution of commitments is shown in Table 7.3. Because of the historical background of Japan's economic co-operation, more than 80 per cent of the OECF's activities are to Asian countries and the percentage to the Middle Eastern countries is about 7.6 per cent.

OECF has not been in a position to forecast the future trends of the Japanese economic co-operation to the Middle East. But it is reasonable to anticipate that further efforts will be required of Japan in this region, as a result of the closer economic and political ties between the Middle East and Japan.

Table 7.1 Growth of OECF loans and equity investments

FY	*Type of loan*	*Number of commitments*	*Commitment*	*Disbursement*	*Repayment*	*Outstanding*
1961–5	B	40	20,614	16,337	1,592	29,563
1966	A	7	19,856	7,526	0	7,526
	B	13	6,967	6,189	1,923	19,011
	Total	*20*	*26,823*	*13,715*	*1,923*	*26,536*
1967	A	11	16,266	7,827	0	15,353
	B	18	12,508	8,545	4,672	22,883
	Total	*29*	*28,774*	*16,372*	*4,672*	*38,236*
1968	A	13	33,780	28,103	0	43,455
	B	17	3,995	6,990	1,167	28,707
	Total	*30*	*37,775*	*35,093*	*1,167*	*72,162*
1969	A	24	36,431	31,742	0	75,197
	B	27	7,333	6,407	1,564	33,550
	Total	*51*	*43,764*	*38,149*	*1,564*	*108,747*
1970	A	26	45,447	34,787	0	109,984
	B	54	12,273	9,524	3,427	39,646
	Total	*80*	*57,719*	*44,311*	*3,427*	*149,630*
1971	A	38	68,716	52,498	0	162,482
	B	51	18,070	13,000	3,906	48,740
	Total	*89*	*86,786*	*65,498*	*3,906*	*211,222*
1972	A	33	121,366	76,644	257	238,869
	B	51	16,299	16,000	5,508	59,232
	Total	*84*	*137,665*	*92,644*	*5,765*	*298,101*
1973	A	73	170,196	81,035	1,825	318,079
	B	57	20,069	19,500	10,916	67,816
	Total	*130*	*190,265*	*100,535*	*12,741*	*385,895*
1974	A	62	277,680	123,000	2,603	438,476
	B	44	25,016	25,000	9,036	83,780
	Total	*106*	*302,697*	*148,000*	*11,639*	*522,256*
1975	A	37	161,140	116,202	5,228	549,451
	B	41	21,843	23,688	8,669	98,798
	Total	*78*	*182,983*	*139,890*	*13,897*	*648,249*
1976	A	54	200,795	137,787	8,379	678,859
	B	28	14,021	12,540	8,239	103,100
	Total	*82*	*214,815*	*150,327*	*16,618*	*781,959*

FY	*Type of loan*	*Number of commit-ments*	*Commit-ment*	*Disburse-ment*	*Repay-ment*	*Out-standing*
1977	A	70	432,036	180,104	13,231	845,732
	B	27	13,315	12,847	16,401	99,546
	Total	*97*	*445,351*	*192,951*	*29,632*	*945,278*
1978	A	72	298,015	257,891	17,754	1,085,870
	B	32	20,429	16,014	10,676	104,883
	Total	*104*	*318,443*	*273,905*	*28,430*	*1,190,753*
1979	A	55	317,917	311,813	23,314	1,374,368
	B	39	21,165	19,794	12,281	112,396
	Total	*94*	*339,082*	*331,607*	*35,595*	*1,486,764*
1980	A	98	539,757	281,918	27,920	1,628,367
	B	28	15,934	14,024	14,063	112,357
	Total	*126*	*555,691*	*295,942*	*41,983*	*1,740,724*
1981	A	59	359,591	314,407	40,191	1,902,582
	B	31	29,850	26,354	9,529	129,181
	Total	*90*	*389,441*	*340,761*	*49,720*	*2,031,763*
1982	A	91	635,334	443,348	50,219	2,295,712
	B	13	24,353	31,254	17,805	142,631
	Total	*104*	*659,687*	*474,602*	*68,024*	*2,438,343*
1983	A	81	581,480	427,390	58,829	2,664,273
	B	22	25,137	24,805	12,214	155,221
	Total	*103*	*606,617*	*452,195*	*71,043*	*2,819,494*
1984	A	93	604,182	414,781	63,750	3,015,304
	B	28	47,810	19,922	15,267	159,876
	Total	*121*	*651,992*	*434,703*	*79,017*	*3,175,179*
1985	A	85	556,815	412,710	70,037	3,357,977
	B	26	16,530	15,629	17,858	157,646
	Total	*111*	*573,345*	*428,339*	*87,895*	*3,515,623*
1986	A	67	542,313	518,836	94,235	3,782,577
	B	17	3,172	6,566	4,236	159,976
	Total	*84*	*545,485*	*525,402*	*98,471*	*3,942,553*
1987	A	97	719,254	544,732	90,726	4,236,583
	B	12	18,178	22,584	5,732	176,829
	Total	*109*	*737,432*	*567,316*	*96,458*	*4,413,412*

FY	*Type of loan*	*Number of commit-ments*	*Commit-ment*	*Disburse-ment*	*Repay-ment*	*Out-standing*
1988	A	133	1,091,673	618,168	109,796	4,744,955
	B	9	8,625	9,796	5,522	181,102
	Total	*142*	*1,100,298*	*627,964*	*115,318*	*4,926,057*
1989	A	105	845,976	652,157	106,347	5,290,765
	B	5	11,685	7,137	23,786	164,454
	Total	*110*	*857,661*	*659,294*	*130,133*	*5,455,219*
Total	A	1,484	8,676,025	6,075,404	784,639	5,290,765
	B	730	435,188	390,445	225,991	164,454
	Total	*2,214*	*9,111,213*	*6,465,849*	*1,010,630*	*5,455,219*

Notes:
A: Loans to foreign governments.
B: Loans to and equity investment in corporations.
Outstanding as of 31 March of each year.

Table 7.2 Loans outstanding of major organisations

	The amount of outstanding balance	*as of*
OECF	$34,600 million	31.3.90
World Bank (IBRD & IDA)	$114,500 million	30.6.89
Asian Development Bank	$12,500 million	31.12.89
Inter-American Development Bank	$20,500 million	31.12.89
African Development Bank	$4,800 million	31.12.89

Table 7.3 Loans to foreign governments: geographical distribution of commitments

	FY 1989			FY 1966–89		
	Number of commit-ments	*Amount (mil. yen)*	*Share (%)*	*Number of commit-ments*	*Amount (mil. yen)*	*Share (%)*
Asia						
Afghanistan	–	–	–	1	720	0.0
Bangladesh	2	27,500	3.3	43	392,069	4.5
Cambodia	–	–	–	2	1,277	0.0
China	11	97,179	11.5	74	870,900	10.0
India	7	32,933	3.9	71	607,523	7.0
Indonesia	14	178,407	21.1	424	1,706,931	19.7
Republic of Korea	2	7,634	0.9	84	496,381	5.7
Laos	–	–	–	2	5,190	0.1
Malaysia	3	61,260	7.2	51	415,790	4.8
Myanmar	–	–	–	66	402,972	4.6
Nepal	–	–	–	5	34,925	0.4
Pakistan	1	19,300	2.3	42	366,496	4.2
Philippines	21	145,958	17.3	137	829,247	9.6
Singapore	–	–	–	2	1,181	0.0
Sri Lanka	7	19,511	2.3	37	190,766	2.2
Thailand	11	66,357	7.8	139	755,022	8.7
Vietnam	–	–	–	5	12,492	0.1
Other	–	–	–	5	26,570	0.3
Total	*79*	*656,039*	*77.6*	*1,190*	*7,116,452*	*81.9*
Middle East						
Jordan	–	–	–	6	48,811	0.6
Syria	–	–	–	1	27,544	0.3
Turkey	1	35,200	4.2	26	164,133	1.9
Yemen	–	–	–	4	42,350	0.5
Total	*1*	*35,200*	*4.2*	*37*	*282,838*	*3.3*
Africa						
Algeria	–	–	–	7	12,000	0.1
Botswana	–	–	–	2	4,900	0.1
Burundi	–	–	–	2	3,300	0.0
Cameroon	–	–	–	2	9,588	0.1

	FY 1989			*FY 1966–89*		
	Number of commit-ments	*Amount (mil. yen)*	*Share (%)*	*Number of commit-ments*	*Amount (mil. yen)*	*Share (%)*
Central African Republic	–	–	–	1	600	0.0
Egypt	–	–	–	35	279,658	3.2
Ethiopia	–	–	–	2	3,700	0.0
Ghana	–	–	–	6	46,957	0.5
Guinea	–	–	–	4	12,152	0.1
Côte d'Ivoire	2	7,501	0.9	3	12,501	0.1
Kenya	6	46,104	5.4	22	123,938	1.4
Liberia	–	–	–	5	4,543	0.1
Madagascar	1	2,114	0.2	10	16,471	0.2
Malawi	1	3,757	0.4	8	20,634	0.2
Mali	–	–	–	1	4,000	0.0
Mauritania	–	–	–	2	3,923	0.0
Mauritius	–	–	–	1	1,674	0.0
Morocco	1	13,000	1.5	8	40,407	0.5
Niger	–	–	–	1	3,200	0.0
Nigeria	–	–	–	3	42,550	0.5
Rwanda	–	–	–	3	4,649	0.1
Senegal	1	105	0.0	3	6,705	0.1
Sierra Leone	–	–	–	3	2,630	0.0
Somalia	–	–	–	3	6,608	0.1
Sudan	–	–	–	5	10,743	0.1
Tanzania	–	–	–	9	20,420	0.2
Togo	–	–	–	2	4,400	0.1
Tunisia	1	10,000	1.2	6	40,550	0.5
Zaïre	1	3,912	0.5	4	42,987	0.5
Zambia	–	–	–	8	32,228	0.4
Zimbabwe	1	5,246	0.6	3	11,882	0.1
Total	*15*	*91,739*	*10.7*	*174*	*800,710*	*9.3*

	FY 1989			FY 1966–89		
	Number of commit-ments	*Amount (mil. yen)*	*Share (%)*	*Number of commit-ments*	*Amount (mil. yen)*	*Share (%)*
Central and South America						
Bolivia	2	13,391	1.6	8	49,732	0.6
Brazil	–	–	–	5	34,405	0.4
Colombia	–	–	–	2	30,585	0.4
Costa Rica	1	12,468	1.5	2	26,015	0.3
Dominican Republic	–	–	–	4	22,987	0.3
Eucador	1	1,500	0.2	7	37,520	0.4
Guatemala	1	5,875	0.6	1	5,875	0.1
Honduras	–	–	–	5	27,149	0.3
Jamaica	1	308	0.0	11	35,168	0.4
Mexico	2	898	0.1	4	30,642	0.4
Nicaragua	–	–	–	1	7,500	0.1
Paraguay	–	–	–	8	48,617	0.6
Peru	–	–	–	9	27,322	0.3
Uruguay	1	7,166	0.9	1	7,166	0.1
Total	*9*	*41,606*	*4.9*	*68*	*390,683*	4.7
Oceania						
Papua New Guinea	–	–	–	7	29,330	0.3
Total	–	–	–	*7*	*29,330*	*0.3*
East Europe/ Other						
Bulgaria	–	–	–	1	4,832	0.1
Poland	1	21,392	2.5	1	21,392	0.2
Total	*1*	*21,392*	*2.5*	*2*	*26,224*	*0.3*
Grand total	*105*	*845,976*	*100.0*	*1,484*	*8,675,025*	*100.0*

Appendix: Japan's aid experience with Egypt: a case study*

INTRODUCTION

It has been recognised that in the Middle East politics has always been more important than economic considerations in determining regional and international relations. Egypt is a very important country in the region by virtue of its size and historic role and it is a useful exercise to analyse the profile of the economic assistance extended to it by the international community and the trends in the flow of aid from various sources.

During the period of Nasser's leadership, principles of Arab socialism were emphasised, and after an initial period, between 1952 and 1956, of relating to the west and particularly to the United States, Egypt swung to the Soviet Union for its major source of economic and technical support. Soviet assistance in the construction of the Aswan High Dam symbolised the importance of the relationship. Under President Sadat, who introduced the so-called 'open door' policy, aid from western countries and from international agencies such as the World Bank substituted for the Soviet assistance. In practice the Soviet economy would have been quite unable to support Egypt's rapidly-increasing food gap, its underlying trade deficit and the substantial investments needed in all sectors of the economy. The departure of the Soviet officials in 1973 was inevitable. One contributing factor was the economic aftermath of the 1973 October War. The new pattern of oil revenue earnings enabled the oil-rich Arab countries in the Gulf to provide Egypt with substantial economic aid. This flow dried up just as rapidly, however, after Egypt's reconciliation with Israel in March 1979.

Despite these difficulties with Arab aid, Egypt was by 1980 enjoying an uncharacteristic balance of payments surplus as a result of its own oil

* The views expressed here are the author's personal views and do not reflect OECF's (or the Japanese Government's) officials views.

production and modest oil exports and as a consequence of a burgeoning income from remittances from professionals and other workers in the Gulf and elsewhere. Canal tolls and tourism also brought in a steady flow of foreign exchange income. The rate of economic growth was reckoned to be between 8 and 10 per cent per annum in the late 1970s.

Unfortunately these relatively massive resource transfers were not associated with major economic reforms. The management of the Egyptian economy has since the late 1950s been through a comprehensive system of government intervention in the labour market and in the price of basic commodities. The limited employment opportunities are widely shared in the public sector where wages are very low and, in order that this mass of poorly-paid families can gain access to food and fuel, subsidies on food and fuel were instituted in the 1950s and have been sustained ever since despite the insistence of economic advisers from the international agencies that the subsidies were damaging to the economy. Even apparently irreplaceable patrons such as the United States providing the same advice were ignored.

The failure of the Egyptian Government to adjust its economic policy in a timely fashion is one of the basic factors which have brought difficult situations in domestic and external payments in the 1980s. The experience of western donors and aid agencies greatly disturbs Japanese professionals seeking a sound basis for the investment of Japanese funds, both commercial and aid funds, in Egypt.

THE EARLY YEARS OF JAPANESE ODA IN EGYPT— 1973 TO THE MID-1980S DEBT CRISIS

Japanese ODA loans to Egypt started in December 1975 shortly after the first oil crisis. This period coincides with Egypt's shift from socialist to open door economic policy. In December 1973 the Japanese Deputy Prime Minister Miki visited several Middle Eastern countries in order to strengthen bilateral relationships. As a consequence of the visit Japan pledged a $240 million OECF loan. The loan was to be used for the following:

- Commodity loans—15 billion yen
- Suez Canal deepening and widening—billion yen
- Alexandria Port rehabilitation—5.8 billion yen
- Cairo Water Supply improvement—9.2 billion yen

This loan was followed by another commodity loan of 7.5 billion yen in 1975 followed by a second loan of 23 billion yen in 1977 for the Suez Canal deepening and widening.

After 1978 Egypt became the first among non-Asian developing countries to receive OECF loans on a regular annual basis. The amount of annual pledge increased rapidly from 30 billion yen in 1978 to 50 billion yen in 1983. At the end of the fiscal year 1989 (ending March 1990) cumulative total loan commitments to Egypt were 280 billion yen, involving thirty-five loans, mainly devoted to transport (35 per cent), power (23 per cent), industry (22 per cent) and commodity loans (10 per cent). This ranked Egypt as the eleventh largest (and the largest non-Asian) recipient of OECF loans.

JAPAN AND EGYPT'S DEBT CRISIS

In view of the scale of the loans to Egypt, and with the intent of improving the operation of the arrangements, OECF carried out a country study during 1983 and 1984 including a study of Egypt's macroeconomy, and of the major economic sectors. A number of factors contributed to the weakness of the Egyptian economy, prominent among them being the weakness of the oil price by the mid-1980s, reduced agricultural production, together with a rising population which increased the rate at which the food gap widened, and inefficient economic and administrative management. These economic problems inhibited the repayment of the OECF loans.

The Egyptian Government attempted to introduce reform measures in the second Five-Year Plan which started in 1987, such as the expansion of the private sector, the promotion of efficiencies in the public sector and the promotion of exports. Relief was negotiated with creditors and a stand-by credit was arranged by the International Monetary Fund (IMF) which covered the period from January 1987 to June 1988 in relation to Paris Club creditor countries. In the event it proved extremely difficult to reach detailed agreement in the various bilateral relationships. The rate of the overdue charge to be applied in the case of late payment proved to be the most difficult issue.

Associated with the rescheduling talks were attempts to introduce changes in banking management. Some of the principles which proved to be central in the negotiations were exchange rate unification, the level of bank deposit interest rate, tax levels and the persistent problem of subsidies. The fundamental position of OECF was: 'Unless such negotiations with IMF reached [a satisfactory conclusion] and debt rescheduling agreements (both the initial and the second ones) [are] concluded, no new commitment will be made.'

This was the position of both OECF and the Japanese Government. As a result the OECF made no new loan commitment after October 1988 until late 1990. The Gulf Crisis caused there to be a review of the position in the light of complementary inputs needed to ameliorate the crisis. By 1 September 1990 Egypt's cumulative arrears to OECF had reached more than one billion yen—equivalent to £40 million.

The position was transformed by the politics of the Gulf Crisis. An emergency commodity loan of approximately $600 million was arranged for Egypt as part of Japan's contribution to supporting the stand taken by the United Nations coalition. In addition to the assistance extended to Egypt loans were also arranged for Turkey and Jordan and other project loans elsewhere.

THE REASONS FOR JAPAN'S FIRM POSITION ON LOAN REPAYMENT

There are a number of reasons why Japan took the 'hard position' before the 1990–1 Gulf Crisis and War with respect to loan repayment and the extension of assistance. First, it is the opinion of Japanese professionals concerned with the arrangement of credit in Egypt that the tempo of commercial and banking activity is very much slower in Egypt than in Japan. The Japanese give a high priority to efficiency, order and tight organisation. Egyptians on the other hand give a very high priority to the social quality of life which involves taking a more relaxed approach to all aspects of life. Those Japanese who return to Tokyo after living in Cairo for a number of years are struck by the excessive efficiency of Japanese urban life and recall a greater sense of humanity extended by individuals especially within the family but also in society generally. The Japanese had experienced a similar difference of attitude when they began to relate to other Asian countries with which they have become closely involved during the past three decades, but the experience in Egypt far exceeded the practices encountered in East and Southeast Asia. When Egypt was 'promoted' to the status of a regular annual recipient country the tension generated by the different approaches of the Japanese and the Egyptian partners was unfortunately aggravated.

From the Japanese point of view the framework for a loan should be negotiated between the two governments within a 'reasonable' time-frame by Japanese standards. Egyptian perceptions and attitudes proved to be very different and the Egyptian negotiators insisted on a number of conditions which would bring them more benefits, mainly associated with delayed payment. The Japanese negotiators found the terms suggested by the Egyptian side to be inconsistent with a great deal of practice built up with recipients elsewhere.

Second, there were administrative problems. Domestic procedures for receiving and implementing foreign loans became more and more complicated. So many stages were introduced that by 1990 there were thirty complicated steps in the loan arrangement between the submission of an application for yen credit and the implementation of the loan agreement. The most time-consuming steps included the process of obtaining the approval from various inter-ministerial and Parliament committees which led finally to a ratification of the loan agreement by the Egyptian People's Assembly. Sometimes the process took two years. The expense involved and the difficulties introduced by the changing circumstances which inevitably affected the initial assumptions of the original application were especially irksome to Japanese officials.

A third problem was the difficulties encountered when a non-eligible supplier was successful in the Egyptian tendering process. The Japanese practice was to extend 'LDC Untied' loans to Egypt. In other words equipment and services do not have to be provided by Japanese companies and agencies if they can be obtained from a source in a less developed country (LDC). The Egyptian Government insists, however, that most equipment and services must be tendered for internationally. Frequently the successful tender is from a source in an ineligible (non-LDC) country and so the Japanese loan could not be used. A great deal of delay and disappointment was caused by this mismatch of procedure and regulation. This area of supplier preference was made even more complicated as in many cases another donor would be involved which would be operating according to different criteria. These different criteria would emerge through the availability of conditional soft loans which could be deployed if contracts for equipment and services were placed in the country from which the loan was coming. The competition which emerged amongst donors was a complicating factor and was not conducive to straightforward relationships.

The Egyptian Government often wanted to use funds denied in the above process for other urgent projects but the Japanese side generally refused to consider alternative schemes at a late stage in the negotiation of a loan for a specific purpose. It should be pointed out that the bureaucracy associated with the arrangement of a loan is very time-consuming in Japan also. A number of ministries in Tokyo have to agree on the loan and the decision-making process is very time-consuming. That Japanese officials tend to stick to previous decisions makes it extremely difficult to steer an evolving transaction in a flexible way. It also reduces the chance of reaching a mutually-agreed position. Sometimes the frustration reached a high level on both sides and the Japanese officials adopted what might be described as a very unhelpful 'Egypto-phobic' (maybe this word is too strong) attitude.

LESSONS FROM OECF EXPERIENCE

The experience of the 1970s and the 1980s has been taken into account and there is a sincere wish on the part of various departments of the Japanese Government associated with providing aid for countries such as Egypt to be more sensitive to the expectations and practices of those countries. There is a realisation in Japan that officials in Egypt have over the centuries become used to dealing with officials from overseas. Visiting officials have not always been benign and have on occasions been much more concerned with metropolitan priorities than with those of the people of Egypt. Hence the approach of Egyptian government servants is cautious, patient and above all keen to negotiate a deal which benefits Egypt. Since Egyptian officials have generally dealt with Anglo-Saxon donors, and their colonist forebears, they tend to expect those extending aid to have similar attitudes and policies. Different expectations of Egyptian and Japanese negotiators are largely due to different international experiences of government officials. As a result of the deepening and better-informed relationship between Egypt and Japan the concept of partnership is now being established. This argues well for the future of credit arrangements and the Egyptian economy.

Chapter 8
Japan and the Middle East in the 1970s and early 1980s
A Japanese diplomat's view[1]

Kazuo Chiba

I would like to recount some personal reminiscences. My credentials are that I have worked for quite some time in the Middle Eastern end of the Japanese Foreign Service. I started out as a Deputy Director, in other words, the leader of the foot-soldiers or the spearbearers, in my youth, and much later on served as Director-General of Middle Eastern Affairs at the time of the Iranian and Afghan crises.

In the field I have served in Tehran—this was at the time the Shah was still young and had just got rid, with CIA help, of Mossadegh. I enjoyed a rather quiet official period there. During that time I managed to travel to Lebanon, which was still a very nice quiet place (although there were signs of strife already), to Iraq, Kuwait and other places well known today, which were quite calm then. I even travelled to the southern part of Iran, Khuzestan, which the Iraqis called Arabistan. Unfortunately, wherever I went wars, revolutions, famines and massacres happened later.

I understand that there has been a paper read to you about the genesis of Japan's relations with the Middle East and how many Arabists we used to have at a certain period, and how many we have now. I think that when I was around as Director-General, we had about 30–40 Arabists, including Mr M.Mizutani, of my Embassy, present here. Today, we have about 100 (my son-in-law is an Arabist).

THE EARLY ARABISTS

Japan came late to the Middle East. We have had no historical connections until we modernised ourselves in the Meiji Restoration. The Meiji Japanese who first went to Europe, then the centre of the 'civilised' world, started out by passing through the Suez Canal. So the first Middle Easterners these people saw were from the canal—on the camels silhouetted against the sky. When they got to Cairo they were taken to the Pyramids just as today. In those days there were no Arabists, and Japan was struggling to make its way in the world. I have been told that there were a lot of Japanese merchants out there, not modern business men, but itinerary merchants with bales of cotton cloth on their backs, going around the villages of the Zagros mountains, for instance, and showing off their wares to various tribal chieftains and eking out a living. Even as late as 1958, when I first went to Iran, there were quite a few people engaged in such activities—today I don't think there are any left at all. The first Japanese Arabists, I understand, appeared about 1935. They were the real pioneers, and had to go to elementary schools and learn the Arabic language alongside the little local boys also beginning to learn Arabic. A friend of mine, who is much older than Mr Mizutani, though of post-war vintage, went to such a school, and continued his friendship with one of those young boys who grew up only to be killed in the 1973 war as an officer in the Egyptian army. This Japanese Arabist told me how good this young boy had been, and how his family had befriended him. We started out at the grassroots and in very modest circumstances.

This was interrupted by World War II. Japanese submarines managed to stop the traditional sources of grain reaching the Arabian Peninsula including the Hadhramauth, so many people starved in what is now Yemen or Oman. World War II was not a very good time for Japanese-Middle Eastern relations. In the port of Muscat, for many years, there was the wreck of a British freighter sunk by a Japanese torpedo fired from offshore by a submarine which had penetrated the Allied defence systems. By the time I visited Oman in 1980 it had been removed. In 1945 Japan emerged completely destroyed from the terrible blows inflicted in modern warfare. Incidentally, being on the losing side in modem wars is not fun at all, but it does give you food for thought, and that is what happened with us Japanese. The Japanese, partly out of genuine remorse, partly out of circumstances, decided that Japan would not embark upon any international adventures any more, whether military or non-military. This attitude has come down to us today, forty-five years since, and is evident in our response to the Gulf crisis. I think that the genesis of our pacifism, or our 'reactive diplomacy', lies in those days. Although we Japanese are survivors, we were so scarred by World War II that we really resolved not to be adventurous and unfortunately, by that, we also ceased to think about many of our responsibilities. Therefore Japan had little international experience, and no Japanese or, for that matter, no foreigner in his right mind, could think of a Japan with responsibilities in the world—maybe responsibilities towards the world, but not for the world.

POST-WAR STIRRINGS

Even after the war, for some time the relationship with the Middle East was on the level of adventurous merchants trudging along the routes of the Alborz, or down in the delta of the River Nile. However, our economy recovered, and very quickly became more modern, with a rising demand for oil. Those days coincided with the emergence of Middle Eastern nationalism, whether Arab or Persian, as a real force. The famous controversy of Mossadegh to wrest control of oil from the Anglo-Persian Oil Company, while the company retaliated by trying to obstruct direct sales of oil to third parties, was a great issue from 1951 on. The tanker, Nisshō Maru defied this ban and went right up to the head of the Persian Gulf and took in a load of Iranian oil on its own. It was then hailed as a great adventure by the Iranians and some Japanese, but most Japanese opinion leaders thought that they would rather look the other way; the pragmatic attitude is summed up in a statement made at the time, 'maybe these guys will get into trouble with the Americans and in that case, we will have nothing to do with it; if they managed to bring back the oil, let's use it'. (I hope you realise that I am deliberately making a caricature out of this event.)

I got into the Foreign Ministry in 1948, but had nothing to do with the Middle East. In those days oil did not all come from the Middle East, it came from places like California, as before World War II. Then disaster struck in the form of the Suez Canal Crisis in 1956.1 was in Geneva in those days, and suddenly we were forcibly made aware of oil through its shortages. It so happened that, just before I had left for Geneva, the Foreign Ministry had started up a subsection called the Middle Eastern Room, not even a Division. It was a very small room and there was the chief, a not very senior man sitting at the head of the long table, and there were some young men sitting around, with a girl who served tea when there were visitors, collected documents, sharpened the pencils of the room's 'great and good' and so on. The genesis of our Middle Eastern policy began in this room. The people who were seated there were later to become very important people; one of the most junior people is our current Ambassador to Saudi Arabia, who was in the past Director-General of the Middle Eastern Bureau. Our Middle Eastern policy's basic thrust was typically Japanese, in that we tried to achieve consensus and not to court controversy. For many years it went on in that fashion, and in time I got back from Iran, where I was posted to after Geneva.

The Suez Crisis had come and gone, and the Middle Eastern Room had become a Middle Eastern Section, and later divided into two, the present First Middle Eastern Division, which deals with the Arab-Israeli dispute and the main protagonist countries and the Second Middle Eastern Division, which deals with the rest including the main oil producers. I was made Deputy Director of the Middle Eastern Section, and in those days it was rather difficult to get good information about the Middle East, but we tried hard. I had been in Iran, which is in the 'Northern Tier' as the Americans used to call it, with a very different flavour from Arabia. In those days it did not matter much, we had only a few Arabists, many still studying with the youngsters in the elementary schools in Cairo or

Damascus; we were more or less a bunch of amateurs all put together and it was great fun in that sense, laying the foundations for future policy. It was not so funny when, once, asking for more budget, the man in charge of the budget said to me: 'What do you need more funds for, we do not have any Middle Eastern policy except oil?' I then had to tell him what the Middle East was, and something about Muslim civilisation, as well as our relationships with the region. He didn't look convinced.

Even in the Japanese Foreign Ministry, where our people's level of knowledge of the Middle East was much better than the rest of the Japanese population, it was in a fairly elementary state. By the time I had finished we had experienced many *coups d'état*—especially the one which established the United Arab Republic, which was Syria and Egypt coming together. Such incidents kept us busy from time to time, but those were the days when Japan was still a little toddler when it came to the Middle East. I have another little story to tell you. When I was still in Iran, one day the representative of a Japanese trading company rushed into the Embassy and said with great excitement, 'We have done it!', and told us that he had sold a cotton mill to the Iranians to be put into Esfahan, the equivalent to Manchester in that country. He added that he had outbid the British, very strong then in that field. We all congratulated him and had an impromptu celebration.

YOM KIPPUR IN MOSCOW

Following that I went elsewhere and in 1973 I found myself in Moscow during Brezhnev's rule. At that time Prime Minister K.Tanaka, who was later to be arrested for corruption, but at the height of his power then, visited Moscow—at the time of the Yom Kippur. In the Kremlin where the meeting was taking place, there was one room nearby where all the top Soviet military brass were sitting, as we could see many telephone lines criss-crossing, undoubtedly rigged up to connect with military installations outside. (I could see all this, as I was in charge of the Embassy detachment sitting in the hall in between.) Sometimes Andrei Gromyko, who was then Foreign Minister, used to come out from the heavily-gilded Elizabeth Room where Brezhnev was talking to Tanaka-San, and cross the hall and enter the Generals' room. The Generals never came out, because I think that they did not want the Japanese to have a look at the military. Anyhow, Gromyko used to come out very soon, and we could see lots of telephones and lots of brass there through the closing door, and they were very animated. Some of our people thought they were directing the war from that room. Our talks with the Russians started out well, but then they came to the conclusion that the Japanese, depending so heavily already on Middle Eastern oil, would soon be in dire economic straits, and therefore could not exert any influence, and thus the Soviets could safely keep us at arm's length. Mr Tanaka, being a very tenacious man, did, however, manage to get in a few phrases about the Northern Islands in the joint statement, which we find very useful today. Thus ended my brief brush with that particular Middle East crisis, as a result of which Japanese policy turned around to one of accommodating Arab interests, instead of accommodating America *vis-a-vis* the Israelis. According to some critics, we now half-follow the Americans and half-follow our own instincts and interests. The latter has been, of course, always one aspect of policy.

The other result was that Japan finally embarked upon the course of serious energy saving. I think that you know, even today, our country is one of the leading nations in energy saving. It all started out then, at the time of the first 'oil shock', a really severe shock. Being in Moscow, where they had a plentiful oil supply, I could drive my car around freely, but even in America, my colleagues had to line up in front of petrol pumps. I remember flying from Moscow to Stockholm, arriving in the evening, before the oil shock and it really looked like a 'city of light'. Later, after the energy crisis I flew to Stockholm and it looked very dusky. Anyway, that was my encounter with the Middle East in Moscow. After that I went elsewhere, until in 1978 I was ordered back to Tokyo to take up the post of Director-General of the Middle East Bureau—partly because of my seniority, and partly because of my stint as a lowly amateur in the Middle Eastern Division in the old days.

IRANIAN REVOLUTION

When I first arrived there and was installed, nothing in particular seemed to be happening. The post-war Arabists had now been promoted to Division Heads. Then I noticed reports from Iran, which initially were ignored, but I became disturbed. It was about riots following the funerals of students who had been killed in demonstrations by the Shah's police, in Tabriz, a city in the north-west of Iran. I recalled that when I was posted in Iran there had been nothing of this sort and the clergy had been very quiet including the Ayatollahs—not Ayatollah Khomeini, as in those days many others outranked him. As you know, these little demonstrations and riots over the students' funerals in the beginning of 1978 mushroomed rapidly to a great mass movement, finally becoming in the course of the year the Khomeini Revolution, the Shah having to leave and the Ayatollah returning in triumph.

In the autumn of 1978 the Prime Minister of Japan, Mr T.Fukuda went on the very first visit of a Japanese Premier to the Middle East, and I went along with him. Our present Prime Minister, Mr T.Kaifu's recent visit to the region is only the second such occasion. Mr Fukuda was not able to visit Egypt, as President Anwar Sadat suddenly cancelled the meeting, and there was no point in going to Egypt without meeting Sadat. He had been summoned to Camp David by President Jimmy Carter for the famous peace negotiations, although we did not immediately know the significance of the meetings. We went to Iran, followed by a couple of Gulf states and Saudi Arabia. Before going to Iran, there were all kinds of signs that the Revolution was on and we were very disturbed by this. Two things struck me once we got there, first, the Iranian Imperial Foreign Ministry even in those last days of the regime stubbornly wanted to put in the communiqué support for the 'New International Economic Order'—this meant that they wanted us to recognise what 'non-aligned' people like Sukarno, who was already out of office, had been arguing for on how the international economic order should be made up. Since we never agreed with such ideas, we had a hard time arriving at a compromise. I had to sit up with the Shah's Foreign Ministry to make something out of their demands.

The second thing that struck me was that the Shah was deeply depressed and was completely listless when Fukuda-San visited him. This was the first time that the Japanese Prime Minister, a not unimportant leader, had come to his country, and he might have been either appreciative of the visit because of the political connotations, or perhaps have tried to squeeze something out of us—but he did neither. It was the Empress who really tried to liven things up when she joined us for lunch. She had read up on the briefing notes which the Iranian Foreign Ministry had provided. She talked, among other things, about a Japanese artist who had reconstituted the lost art of making old Sassanian ceramics, and had reproduced them in Japan. She was the only one on the Iranian side talking intelligently, and later Mr Fukuda remarked to me, 'did you see that, there is a woman who is working at her job'. Mr S.Sonada, now deceased, who was then Foreign Minister and went with us, told me that the Shah's face exhibited signs of political death. The minister could sense it, as a politician himself.

The following day we were supposed to fly south to Shiraz, and were having breakfast, when we received a phone call for our Ambassador, who reported to Mr Fukuda that the General commanding the Tehran garrison had told him that they expected disturbances that day, and were going to impose martial law on the city. But, if we wanted to leave the city as per schedule, they would provide the necessary traffic control to get us to the airport. We had a brief discussion and decided to get going. When we reached Shiraz and settled in our hotel near Persepolis, we got a phone call from the Embassy saying that a great disturbance was now going on in the Meidan-e-Sepah (Army Square, now renamed Revolution Square). This degenerated into a massacre and was the start of the Revolution in earnest.

After our return to Japan, the Iranian situation developed rapidly, the Revolution was in full swing by the end of the year, and the Shah went into exile. I remember the day the Shah went. I found myself in Baghdad talking to the Iraqi Vice-Minister for Foreign Affairs, and he was interrupted by a message coming in. Having read this message he looked at me and said 'this is a very sad day'. I asked him in what sense, and he replied that a message had just been received that the Shah had left the country. That was a very great shock to him. This I found very illuminating. As you know, the Shah had some time before agreed to an accord with Iraq, concerning the Shatt-el-Arab, and a seasoned Iraqi diplomat like the Vice-Minister recognised this contribution to lessening tensions. Later the Shatt became one of the causes of the Iran-Iraq War of 1980–8. The Iraq is were also vastly relieved then because the Shah was clamping down on the Kurds who were causing trouble for them. They evidently thought that the departure of the Shah was very worrying.

That the events in Tehran in 1978 and 1979 were unprecedented and, more important, universally unexpected by Iran specialists, is illustrated by an experience some years later at a party in Washington DC. I started talking to two people I had just met about the Iranian Revolution, and both of these two men agreed that they had been taken completely by surprise. I told them that we Japanese had been also. They looked at me in a certain way and made no comment. Later somebody told me, true or not, that one was supposed to be CIA and the other, a visitor, KGB!

PERSONALITIES AMID CRISES

On the arrival of the first revolutionary Ambassador of Iran to Japan, who shall remain nameless, in Tokyo in 1979, a certain Japanese corporation had a reception in his honour in their headquarters, which I attended. Everyone was having the usual drinks, when the Ambassador was announced. He entered with about six or seven others, and immediately someone approached him about drinks. He firmly said he did not wish to touch any alcoholic drink—that created a realisation in the party that things were now different. Later he was asked to say a few words, and he started out saying that for four thousand years his people had been the victims of vicious schemes by the British, Americans, Germans and the Japanese and that these peoples should put things right. Everybody made quick calculations and concluded that four thousand years ago there was no Japanese nor American nation or state. Gloom descended. I went up to the Ambassador and, introducing myself, said how much I would like to maintain contact, especially about bilateral issues, with him. He looked at me and asked what I meant by 'bilateral'. I said 'between your esteemed country and mine'. He said 'our relationships are unilateral'. I asked him what he meant. He said 'you have heard me mention the past history; therefore I expect you to carefully listen to and follow what I tell you'. Soon afterwards the Ambassador left and many then crowded the bar for drinks. In all fairness, as his experience of Japan increased later, he became more used to our ways.

The Industrial Summit was held for the first time in Tokyo that year. President Carter was there and Mrs Thatcher in all her splendour, plus numerous other dignitaries. The main issue was allocating among the participants how much oil they could import. Then, later, Iranian factions occupied the premises of the American Embassy in Tehran and took hostages from the American staff. This crisis dragged on, and when one day we were gathered in the Prime Minister's office with the late Mr Ohira, the Prime Minister, discussing how to deal with this crisis, there came a phone message from the Foreign Ministry. It read that the Americans had tried to rescue the hostages but had been bogged down with loss of life in the Iranian desert because of a sandstorm, and that generally it was a disaster. When reported to the Prime Minister he said in Japanese something roughly translatable in English as 'my cup brimmeth over'. He called upon us to try and do our best to help President Carter, and that is what we kept doing all through those long dreary days.

I have told you about the Arabists in the Japanese Foreign Ministry but, compared to them, Persian speakers are very few in number, then and now. In fact, in those days of crisis there was only one young man in my Bureau who was a Persian specialist—and I was the only other who, though not a Persian speaker, had lived in Iran and got to know some of the flavour of the country. I asked him to come one hour early to the office and having made arrangements with the Communications Department to get all the incoming cables from Tehran first thing in the morning, we both sat in my room and read the cables, analysed them, and made the necessary arrangements for the day. He is now in quite an important position, dealing at the Ministry with the Gulf Crisis. This is no reproach on our own Arabists, who are superb specialists by any standard, but when it comes to the 'Northern Tier', there is a subtle difference. The flavour of Iran or Turkey or Afghanistan is quite distinct from Arabia, and the necessary instinct for a region in diplomacy comes from early experience. I do not know if Arabists in other diplomatic services have that problem. Later still, when the Soviets embarked on their military adventure into Afghanistan, the entire Ministry including the American, Soviet and Economic departments was mobilised, so our deficiency in numbers was rectified.

The Japanese in those days of the hostage crisis were for the first time, in the name of international solidarity, confronted with the necessity of curtailing their own activities such as investment plants in Iran. As the hostage crisis deepened, many of them had to pack up and leave temporarily, as we advised them to do, since we could not guarantee the safety of these employees. At one such meeting with prominent businessmen, one of them said to me, 'Mr Director-General, why is it that we who have had nothing to do with the causes of the Iranian Revolution, nothing to do historically with the Arab-Israeli conflict, and nothing to do with American interests in Iran, have to suffer this?' I was about to say because, in this post-war world, that was the way the 'cookie crumbles' according to American slang of the day; in Japanese it would mean that when misfortune strikes, that is the way that things will affect you. But I could not say that because I was not sure I'd be understood. After our great defeat in 1945, the Japanese had firmly decided on 'no aggressive adventures overseas'. The Japanese psychology was that since we do not initiate adventures, why should adventures come to us? I had to explain as well as I could to the businessmen about the need for international solidarity, and so on. His attitude was quite natural for the Japanese of that time; some of us still have that sort of mentality, though I think that we are speedily getting out of it in the early 1990s.

There was an additional human aspect in the Iranian crisis, what I call 'special envoy-itis' on the part of my compatriots. Many Japanese politicians like to send special envoys whenever there is a crisis. Perhaps it is also a trait of the people. At the time of the hostage crisis they wanted to have some Japanese politicians go and persuade Iran to give up the American hostages. This was not accomplished by any of the few who tried. This sort of mentality does still exist today, illustrated by the understandable desire to get the Japanese residents held in Iraq in the early months of the 1990 Gulf Crisis out to freedom. This feeling still exists and will exist in Japan for some time. For my part, I was criticised, mostly behind my back, for telling people at the time of the Iran hostage crisis in 1979 that it wouldn't work.

EVOLVING JAPANESE RESPONSES

Through all these harrowing experiences we made a more or less conscious resolve to be on best possible terms with all Middle Eastern countries including Israel, and I think that this has been successful for some time and up to a point, but now it is being put to the severest of tests. During the Iran-Iraq war which (for me) happily happened after I had left the Bureau, I think that Japan was about the only major economic power which could then talk to both Iran and Iraq, and although we tried to bring about peace through apparently fruitless years, we were nevertheless quite useful behind the scenes to our allies as well as other powers.

During the following decade, Japan's economic power in the world rose a great deal, and she became more and more a global player. All the great changes, in Europe and elsewhere, of the late 1980s, gave the impression that Japan would, gradually and successively, be called upon to play an increasingly important role in world affairs. Unfortunately it was not to be. The current Gulf Crisis hit us much earlier and in a much more urgent manner than anybody had expected. An effective global crisis control system had to be installed almost from scratch, and mental habits of four and a half decades of being against 'overseas adventures' had to be transformed into an awareness of the world's expectations of substantial Japanese contributions. After a great deal of internal soul-searching, an impressive package of $4 billion was put together, while an intense debate on possible involvement by personnel including those from the Self-Defence Forces was started.

These changes could obviously not be implemented overnight. It is not possible to accelerate a motor car from zero to 100 mph immediately. Nevertheless, the western press, regrettably including the British, assisted by fortuitous timing of Japanese governmental announcements, plus critical reporting by foreign correspondents in Japan, derided the results as 'too little and too late'. I have been pointing out in this connection that serious observers should look at Japan's evolving responses in the dynamic and far-sighted context, and not merely with a static and myopic perspective. Through all these seemingly time-consuming discussions our people are striving to develop a solid consensus without which Japan as a democracy, and as the product of an ancient, deeply-rooted civilisation, cannot have her people willingly and in meaningful terms contribute to the world.

The road ahead is clear. Our interests in the Middle East have now transcended the parochial. The Middle East is of enormous importance, and these regional and economic interests are an integral part of our total global interests, encompassing elements ranging from the strategic to the cultural. It is not just a question of Japanese monetary, or even personnel contributions, being hard both domestically and also internationally to bring about. It is a question of our whole relationship to the world, of our responsibility to future generations. This is the basis of our responses, now evolving in the debate, sometimes heated, of our democratic process.

Chapter 9
Japan's relations with Israel

Akifumi Ikeda

INTRODUCTION

On 4 April 1991, when the Japanese Prime Minister Kaifu visited Los Angeles to meet President Bush in an attempt to patch up the unsteady relations between the two countries and to save his nation's reputation in the difficult circumstances of the Gulf Crisis, he made quite an inconspicuous but somewhat historic remark on his country's attitude toward Israel. 'Historic' in the sense that it implied for the first time the possibility of improving bilateral relations regardless of the Arab-Israel conflict.[1] And there has been clear confirmation of the significance of the idea since Kaifu's statement, epitomised by the decision of Japan's largest automobile manufacturer, the Toyota Motor Co., by the middle of the same month, to cancel their trade embargo with Israel.[2] Although Toyota's decision to begin exports to Israel was ostensibly claimed as purely a marketing move, it is hard to deny the circumstances of mounting political forces from outside on the diplomatic front which pressed Japan to distance itself from the Arab boycott.

Powerful Jewish lobbies have exerted increasing influence on the Bush Administration to put the subject of the Japanese adherence to the boycott on the agenda of United States-Japanese trade negotiations. Both in the Senate and in the House, there have been outright demands that Japan should drop its compliance with the boycott. Kaifu's visit to Los Angeles in April 1991 encountered demonstrations by many Jews and pro-Israeli Christians protesting against Japan's stance. Therefore, Kaifu's remark and the decision by Toyota are, it would seem, being evaluated and welcomed by many of the observers as a 'turning point' for Japan, which will finally buck the Arab boycott, which has stunted business and political relations between Japan and Israel in those four decades. This, together with the effect of the dramatic and drastic developments in the Gulf in early 1991, has created the strong impression that Japan has rapidly changed its stance with regard to the Middle East from a somewhat ostentatious pro-Arab bias to a more neutral, or even slightly pro-Israeli, bias.

It has to be borne in mind, however, that such a move was not brought about out of the blue, nor did the move provide a real ‘change’ from the period which preceded it. In fact, Tokyo’s official stance on the Arab-Israeli conflict, that is to say, support for Palestinian self-determination, the establishment of an independent state and recognition of the Palestine Liberation Organisation (PLO) as the representative of the Palestinian people, has never changed since 1973, or even in the years before that. The important point is that, despite this posture, the trade figures with Israel have tripled in the last five years.[3] It seems that somewhere in the mid-1980s Japan stopped saying ‘sorry, no progress in bilateral relations unless the Middle East confrontation ends’, and started thinking that business and politics could be independently pursued. At the same time, a thawing of Japanese government relations towards Israel became more and more visible, however cautious their expression. Although it is arguable that Premier Kaifu’s remark and Toyota’s decision were historic or epoch-making, they were at least clear evidence of Japan’s reassessment of its own stance. The moves can be seen as a continuation of the developments since the mid-1980s and therefore more as an ‘accelerating point’ than as a ‘turning point’. In the following discussion, a pattern of ‘changing attitudes’ of Japan towards Israel is examined, with an attempt to understand these changes from the points of view of different levels of society.

POST-WAR RELATIONS

The official Japanese relations with the State of Israel started immediately after the end of the United States occupation of Japan, in May 1952, and the Israeli legation was set up in Tokyo in December of the same year.[4] However, as was shown by the fact that it took more than ten years for the legation to be upgraded to an embassy, the Japanese attitude towards Israel was no more than just ‘normal’, and one which could be safely described at best as ‘shy and hesitant’. The main reason for that was that the area was a scene of rivalry among world major powers, particularly between the two superpowers, and Japan tried to keep away from the scene so as not to get entangled in such complicated politics. As a client-state of the United States, Japan had to follow the United States’ Middle East policy. On the other hand, the Middle East was considered by the vast majority of the Japanese populace as just a reservoir of oil, from which Japan derived a decisive portion of her energy needs. Therefore, the basis of the Japanese approach towards Israel was always conceived as an accommodation of those two dimensions, which explains the ambiguities in so promptly establishing the formal relation on the one hand, but at the same time trying to keep 'low profile' in that relationship.

As the 1960s ended and the mid-1970s approached, there were several events around the world that had dramatic repercussions on Japanese perceptions of, and attitudes towards, Israel.[5] Until that time Arab-Israel conflict had always been a minor adjunct in Japanese government circles as well as in a large segment of society. From Japan's point of view, there was no pressing need to think of the Palestinian problem or the Arab-Israeli dispute because Japan remained closely tied to and heavily dependent on the United States in terms of external policies. Although the United States-Japanese relationship was frequently described as a marriage—the period of occupation providing the honeymoon—Japan was undoubtedly the junior partner. Thus, in the international arena Japan invariably followed the American lead, professing to follow a 'low profile' foreign policy, while pursuing purely economic ends as a means of achieving national reconstruction in both external and internal policies. As for the Middle East conflict, Japan hoisted a policy based on United Nations Security Council Resolution 242 of 1967 which happened to be drafted when Japan chaired the Security Council. It was obvious at the time that Japan had no diplomacy with which to implement the Resolution.

By the early 1970s, however, the United States-Japan relationship was being put under severe strain. Successful Japanese industrial penetration of external markets included the United States to a very significant extent, and prompted Richard Nixon, who was preparing for election to a second term of office, unilaterally and suddenly to announce the erection of barriers on the import of Japan's textiles. He aimed to gain kudos from the lobbies in favour of restricting Japanese penetration. This constituted the first of what the Japanese came to term the 'Nixon Shocks'. Reeling from this first shock the Japanese were in for a second one nearer home. Successive Japanese governments had followed United States injunctions concerning the recognition of Taipei and the non-recognition of Beijing. In July 1971, half an hour before Nixon was to make an announcement to the American public, and indeed to the whole world, the Japanese Government was informed of his intended visit to Beijing. The United States' western allies, it transpired, had long before been informed, indeed consulted. This was the second 'Nixon shock', and one which led Japan to a realisation of the unreliability of her ally and hence the need for a more autonomous foreign policy. To put spurs to such a tendency, an 'ironclad' treaty on Japan's defence with the United States (Anpo-jōyaku) started to show a crack or two, with the United States withdrawal from Vietnam and the promulgation of the Nixon Doctrine (according to which allies would be responsible for the manpower for their own defence). In fact, it was under such circumstances that Japan faced the oil embargo of 1973 by Arab oil-producing countries, a quick object lesson in its own strategic vulnerability.

In these circumstances the Japanese Government at the time (the Tanaka Cabinet) reacted uncharacteristically quickly to Arab demands by issuing a communiqué delivered by the then Cabinet Secretary Susumu Nikaidō, on 22 November 1973.[6] Although some claim that the communiqué marked a significant change in Japan's position towards the Arab-Israeli dispute, being apparently devised under severe Arab 'oil' pressure, in fact the communiqué did not fully meet any of the Arab demands then imposed on Japan by the Arabs. It did not break diplomatic relations with Israel and consistently refused to clarify the rather vague language about how and when this might be done. Economic ties with Israel were also not severed. By the constitutional restriction, Japan claimed to be unable to supply sophisticated weapons, or any kind of weaponry to the Arabs.

The new position taken by the Japanese Government of 1973 was not so much that it gave in to Arab demands but that it kept a certain distance from United States demands. It could be described in a way as a more pro-Arab position, but only so in relation to that of the United States. Japan certainly did not give up its attempt to stay out of international political controversies if at all possible. It seems that the style rather than the content of the Nikaidō communiqué contributed more to the image that Japan drastically 'changed' her position. Particularly impressive was the pace of the adoption of the new policy, as it normally took far longer for Japanese governments to make decisions. The promptness of the decision derived, however, partly from the apparently pressing need of the situation, but mainly from a panic response precipitated by the awareness, as was mentioned earlier, of Japan's strategic vulnerability as well as from the awkwardness of relations with the United States, rather than from measured or deliberate consideration.[7]

It is important to bear in mind that Japan's reputation as one of the most pro-Arab industrial countries did continue through the periods before and after the 1973 crisis. Japan voted for the United Nations General Assembly resolution 2628 of 1970 which asserted that 'respect for the rights of the Palestinians is an indispensable element in the establishment of a just and lasting peace in the Middle East', with a small number of West European countries. The Japanese Government referred to the 'lawful rights' of the people of Palestine during a state visit of King Faisal of Saudi to Japan in 1971, placing itself well in advance of other industrial states in the west on this issue. Therefore, it was not surprising at all that Japan abstained on three different occasions at the United Nations in 1974, namely, acknowledging Palestinian rights, recognising the PLO and condemning Zionism and racism, while the United States voted against all of them. At the same time, however, as was shown by the fact that Japan also abstained from the 1974 General Assembly Palestinian resolutions, the new Japanese position did not really mean a departure from its pre-crisis posture with regard to Resolution 242 and Israel's right to exist.[8]

PERCEPTIONS OF MAJOR INFLUENTIAL GROUPS

Japan's perception of the Middle East changed with the actualisation of the 1973 oil embargo. After that, Japan had to cope with the reality that she could no longer take it for granted that oil was something one could buy any time from anywhere. This 'lesson' in fact accelerated the Japanese consciousness of its vulnerability mentioned earlier, and its awareness that it cannot stay aloof from world politics forever. Hence, the Japanese approach towards Israel was to be designed upon a determination to accommodate the two sometimes conflicting political necessities—to maintain a good relationship with the United States on the one hand, and to avoid being targeted by the Arabs as a non-friendly nation, let alone a potential enemy. In other words, Japan's policy towards Israel came to be considered more in a Japan-United States or Japan-Arab framework than as a relationship with Israel *per se*. This explains the curious fact that when it comes to issues over Israel, Japanese policy always appears as pro-United States versus anti-United States. The perception of Israel as the morally guilty party and the side which is obstructing progress towards peace is closely associated with, and accompanied by, such a diagram, originated and carried by the anti-United States camp. An important point one must recognise, however, is that there is not 'a Japanese perception of Israel', but that the various parts of Japanese society look at Israel and the Middle East from different perspectives.

It can be safely said that there are three major groups in society which have an impact on Japan's policy towards Israel. First is the official government view, as fashioned mainly by the bureaucrats of the Japanese Foreign Ministry, with important inputs from the Ministry for International Trade and Industry and, to a much lesser extent, by some other ministries like the Cabinet Secretariat and the Defence Agency. It has often been the case that within those bureaucracies specialists on American affairs and Arabists were in conflict with each other in the process of policy-making.[9]

The second interested group is the Japanese business community as indicated by its dire concern over the supply of energy (oil) as well as the vast market of oil-rich Middle East. The interests of this sector tend to be best articulated by the Keidanren, the Federation of Economic Organisations. It is obvious that the Keidanren has tried to exercise much of its influence over the government on Japan's Middle East policy very energetically since 1973, in striking contrast with the preceeding period.

The third is the 'Middle East intellectuals'. The non-government experts —the retired ambassadors, professors, journalists and 'think-tank' researchers—who study various problems of the Middle East. Their studies or remarks are sometimes used as guides for the future direction of Japan's Middle East diplomacy, but as private citizens their views do not have to be recognised or acknowledged officially by the government. More often, their arguments tend to be used as camouflage or smoke-screens by the politicians and bureaucrats who might not always be happy to expose their real intentions and motivations behind the decisions they make.

Various pressures for a stronger pro-Arab policy, however, tend to come from an ideologically motivated element in such intellectual circles.[10] One important reason for the support of these intellectuals for the Arabs is their dichotomic world view: namely, Asia against the west, Japan against the United States, nationalists against imperialists, natives against colonialists. Radical right- and left-wingers found common ground in nationalism and anti-United States feelings. From the rightists' point of view, most of the familiar Arab propaganda on the history of Palestine are acceptable as Palestinian nationalism which is in turn seen as an integral part of modern Asian nationalism. Japan, therefore, has a special obligation to Asian nationalism. Japan, they argue, has a special obligation to help the Arabs against Israel, as a leader of Asia and protector of oriental values. A strong undercurrent to such arguments is the traditional sense of 'resentment' which reacts against any attempt to impose western thought, ideals or influence on any part of Asia. Curiously enough, the leftists' arguments of 'international class struggle' and 'togetherness' with the oppressed masses of the Arabs against Eurocentric neocolonialism, lie on almost the same track, with minor differences of terminology and wording. In a way, such ideologues amongst the intellectuals specialising in the Middle East, regardless of whether they are rightists or leftists, can be viewed as being very concerned with preserving Japanese national identity, a concern which can lead to varying degrees of xenophobia. One has to be reminded that historically the Japanese in general have been extremely fearful of westerners, usually labelling them with 'gaijin', and the belief that Japan is only for the Japanese is prevalent among a very significant proportion of the population. The Middle East intellectual circles, it would seem, are as well under the influence of such general autism.

THE CHANGING JAPANESE ATTITUDE

During the 1970s and early 1980s Japan's attitude towards Israel could be basically defined as cool and indifferent, if not actually hostile. Successive Japanese governments followed their predecessors' policy to go a little bit further than any other western country in supporting the Arab position rhetorically, and at the same time to pursue Japanese economic interests in the Middle East. Arabists within the bureaucracies found themselves in a relatively easy position to exert their influence over the government's decision-making, with strong backing both from business circles that had realised they had an enormous stake in the Middle East while the Middle East had no equivalent stake in Japan, and from the intellectual circles which regarded Japan's tilt towards the Arabs as a kind of 'victory' over

United States' domination that satisfied their spirit of rebellion. One symbolic consequence of this attitude was the opening of a PLO office in Tokyo, in 1976, which was followed by the first visit of Yaser Arafat, chairman of the PLO, in 1981. Such gestures were part of Japan's relationship with the region and were designed to make Japanese commitments economically viable. By then a huge amount of money was invested, both privately and in the form of government financial assistance.[11]

All those events and policies were pursued, however, carefully considering the maintenance of a balance so as not to hurt the United States' position very much, and not to the extent of offence. The PLO office in Tokyo, for instance, was never given the formal diplomatic recognition the PLO desired. In the case of the Arafat visit, the Government of Japan refused to make it an official visit, but just allowed that he be invited by the Parliamentarians' League for Japan-Palestinian Friendship. Although Arafat was received by the then Prime Minister Suzuki and the then Foreign Minister Sonoda, he was presented to them in their 'private capacity'. Japan's economic activities in the Middle East were far from a serious annoyance to the United States, as it had no chance of jeopardising United States' strategic interest in the region, or of competing in trade. Japanese compliance with the Arab economic boycott of Israel was a source of frustration and resentment for the powerful pro-Israel lobby in Washington as well as for Israelis themselves, but it remained just as an undercurrent. All in all, for the United States' administrations the strategic rivalry with the Soviet Union took precedence over economic competition with Japan. As a result, the United States appeared to accept the Japanese position *vis-a-vis* the Arab-Israel conflict as it was, as well as the claim by the Japanese Government that it had no control over the trading decisions of private companies.[12]

Moreover, Israel itself did not show much enthusiasm to press the Japanese Government on the matter or to penetrate Japanese markets, except for occasional grumbling to the Japanese about their partiality for the Arabs. It was not until the mid-1980s that Israel commenced its efforts in earnest to promote bilateral relations with Japan. Japan, as a nation, traditionally lacks a significant Jewish presence and Japan was viewed by Israel as a politically marginal power in the international arena located in a corner of the remote Far East. Japan was not perceived to be a major concern of Israel. In 1986, however, the trade volume between Japan and Israel all of a sudden increased by more than SO per cent, after six years of stagnation. The figures also reflected increased levels of exchange in the human, political and cultural fields between the two countries, as well as in trade.[13] The process seemed to have started with a September 1985 visit to Tokyo by Israel's then Foreign Minister, Yitzhak Shamir. Israeli companies participated in more than ten exhibitions in Japan in 1986, and embassy officials held seminars on the Israeli economy in various commercial centres of Japan. Apart from the apparent desire of Israel to make a political breakthrough, Israeli motivation behind such an active move was, it would seem, manyfold; hitherto Euro-American-oriented Israeli business circles now saw the outstanding potential market opportunities in Japan; they also saw Japan as a most fitting base for marketing in East Asia, particularly for the future penetration of China; thus the Israeli Government explored seriously the possibility of inducing Japanese investment in the Israeli economy.

Japan had its own momentum for accommodating such an active Israeli approach and began diplomatic efforts to develop closer relations with Israel. In the fall of 1987 the two nations exchanged trade missions, with Japan sending a semi-official delegation organised by the Keidanren, the first such occasion ever.[14] The following summer witnessed the first official visit at the ministerial level to Israel by the then Foreign Minister Uno.[15] An opportunity for intensive diplomatic activity was created by the funeral of Emperor Shōwa in February 1989, and President Herzog of Israel was received by the then Prime Minister Takeshita, who expressed Japan's eagerness to extend its 'intermediating' in the Iran-Iraq conflict to a larger part of the region. Later that same year the Japanese Foreign Ministry extended official invitations both for chairman Arafat of the PLO and for the then Prime Minister Moshe Arens of Israel to visit Tokyo respectively, as if to substantiate Mr Takeshita's words. Such moves towards a more 'even-handed' stance, if not exactly a 'tilt' towards Israel, certainly implied a departure from the position that the governments of Japan had tried to pursue since the early 1970s.

One of the obvious reasons for the change in Japanese attitude was, of course, a transformation of the Middle East itself, catalysed by a series of major events such as Camp David, the Iranian Revolution, the Iran-Iraq war, the war in Lebanon and so on. In economic terms, as was shown by the oil glut phenomenon, the decline of the economic power wielded by the oil-exporting countries was indisputable. In political terms, it became more and more difficult to accept the Arab line in propaganda, in which every war or instability in the region was always attributed to the Arab-Israel conflict. The oil-producing countries of the Middle East have seen their political influence wane, and this has been accompanied by a decline in their income and purchasing power. The Japanese, on the other hand, have not been paying as much as they used to for the Middle East oil, due to the oil glut and the increased value of the yen, as well as to somewhat successful efforts in energy conservation and diversification of oil supply. Japan's export of merchandise to the region had by 1987 shown quite a drastic fall from its 1981 peak year, as is shown in Table 9.1. In fact, Japan, once the largest exporter of merchandise to the Gulf region, was in third place by 1987, behind the United States and West Germany. In short, the Middle East was generally seen to be less significant both as a source of

Table 9.1 Japan's exports to the Middle East per country (billion yen)

	Amount		Percentage		Change
	1981	1987	1981	1987	87/81
Saudi Arabia	1,296.0 (1)	469.9 (1)	31.8	32.9	–63.8
UAE	327.8 (5)	162.4 (2)	8.0	11.4	–50.5
Iran	331.8 (4)	152.8 (3)	8.1	10.7	–53.9
Kuwait	364.6 (3)	125.2 (4)	8.9	8.8	–65.7
Turkey	55.3	83.3 (5)	1.4	5.8	+50.6
Egypt	173.7 (7)	79.4 (6)	4.3	5.6	–54.3
Iraq	668.0 (2)	56.5 (7)	16.4	3.9	–91.5
Total	4,079.5	1,430.3	100.0	100.0	–64.9

Source: Customs statistics.
Note: Totals include other countries.

energy supply and as a potential market than it had been in the past. The splits and divisions among the Arabs also contribute to a reduction in psychological obstacles to the change in tack, as such conflicts seemed to prove the impossibility of Arabs uniting to take 'revenge' on Japan.

The more important factor instigating the change was, however, the Japanese concern over United States' policy. The Government of Japan was increasingly concerned that the country's pro-Arab bias might antagonise the powerful Jewish lobbies in the United States, which could exacerbate the anti-Japanese feelings deriving from the trade friction with the United States. United States-Japan relations were already at a low ebb, and the American specialists within Japanese bureaucracies were making frantic efforts to deflect the United States' criticism against Japan as being an 'unfair partner'.[16] Given the circumstances of the Middle East mentioned above, the odds were obviously against the Arabists. The Keidanren, as well as the major Japanese companies, were starting to consider the comparative risks. The question here was whether the risks of keeping strict compliance with the Arab boycott and thereby angering world Jewry (Americans in particular) might or might not be greater than the risks of trading with Israel. It was a curious coincidence that the revival of 'Jewish conspiracy theories' in Japan created a sensation from 1987. Many Japanese perceived Jews to be influential in forming American public opinion, if not in steering the American economy as some claimed. As such, Jewish influence could damage Japan's image in the United States. Business circles, holding perhaps an exaggeratedly high opinion of the 'Jewish lobby', were beginning to fear that the Japan-bashing contingent in the United States might join hands with the Jewish lobby. Against this combination an Arab backlash was unlikely to be as important.

THE BOOM OF 'JEWISH CONSPIRACY' BOOKS

The revival of Jewish conspiracy theories in Japan in the late 1980s partly took the form of a 'Jewish book boom' which had an important effect on Japanese Middle East intellectuals, not because of the contents of the cheap paperbacks involved but as a consequence of the reaction from overseas to the boom. The contents of the publications were in fact illogical, being inspired by accusations based on the Protocols of the Elders of Zion, and they contained assertions that the rising value of the yen was a part of a world-wide Jewish conspiracy. It was also claimed that multinational companies were a Jewish invention, that Rockefeller, George Schultz and Stalin were all 'Jewish', that the Jews were responsible for the Tanaka-Lockheed scandal, AIDS or any other immorality.[17] The boom was largely stimulated by the then economic situation in which many Japanese perceived themselves to be gravely threatened. As the general hostility against 'the unfairness' of Japanese trade practice in the United States grew, the anti-Japanese expression in the American press, the threats about customs on Japanese goods and the drastic decline of the dollar *vis-à-vis* the yen accentuated fears in Japan. As in the previous economic boom of the 1930s, there was fruitful ground to find simple explanations about an international conspiracy against 'always victimised Japanese'.

Paradoxically enough, the 'conspiracy of Jews' had great appeal to the Japanese public exactly because of the tiny Jewish presence in Japan and of the essential lack of anti-Semitism in Japan. Lack of such presence diluted a sense of guilt or morality and afforded a certain reality, if not a credibility to the ideas, as no one can easily verify the arguments. Witch-hunting and witch inquisitions are only possible because nobody actually saw a witch and therefore everybody could believe whatever the witch might 'do'. This explains why it was the 'Jewish' conspiracy theories and not the Korean or the Chinese ones which gained currency. The most important fact, however, commonly argued in the allegations against the 'Jews' in the book boom, was that they controlled the United States economically and politically, and that whoever controls the United States controls the whole world. If the Americans were controlled by the Jews, then they are also victims of the Jewish conspiracy just like the Japanese. That is the real clue to the prevalence of the idea. That is to say, the conspiracy theories provided an opportunity for many Japanese to indulge in a diverting and pleasant illusion, puzzled and confused as they were by ever-increasing criticisms from the outside world and fearful of the future. The illusion was that: 'We are still in the same boat with the Americans.'In other words, in reality people felt that they were being persecuted by the United States and wanted to attack the Americans, but it appeared more politic to blame the Jews as everyone knew the United States was too important to offend.

The books were not intended for intellectuals or people of influence, but for the small wage-earners who fear for their place of employment and who want to 'know' more. They were popular in form and in language to be read on the train going to and from work. Initially 'serious' scholars, the intelligentsia and Japanese Middle East specialists virtually ignored the boom until it sparked waves of anger and complaints from abroad.[18] Outside pressures against Japanese 'antiSemitic' literature mounted to a point where the then Foreign Minister Kuranari had formally to deplore the phenomenon in front of the Diet, and many scholars and journalists, including Middle Eastern intellectuals, were stunned by the weight of the accusations from abroad.[19] Arguably they did not really care about the boom as it reflected xenophobia towards westerners in general rather than specifically the Jews, a xenophobia which was shared to an extent by themselves as mentioned earlier. The furious reactions to the boom, however, led them to a somewhat insecure position which seemed to be demanding of them some kind of 'alibi' that they were not anti-Semites. It was also necessary for them to show that they were different from the ignorant subscribers to the conspiracy theories, and that they were quite free from the spell of xenophobia.[20] Such an atmosphere, coupled with the developments in the Middle East described earlier, eventually placed those intellectuals into a defensive posture with regard to their role in influencing Japan's attitude towards Israel.

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Thus, during the late 1980s, in contrast to the period which preceded it, the Japanese specialists on the United States within the bureaucracies gradually came to take the upperhand *vis-a-vis* Japanese policy towards Israel, with the consent of the business circles which were deeply concerned over the United States' reaction to Japan's compliance with the Arab boycott. A start was made to test the economic waters in Israel. The Middle East intellectuals, for their part, did not criticise the changing attitude as vehemently as they would have done in the previous era, although their frustrations were loud and as eruptive as ever, as was demonstrated by such occasions as the outbreaks and developments of the Palestinian *Intifada* or of the Gulf Crisis/War.

In retrospect, what appeared as Japan's pro-Arab tilt in 1973 which was viewed by some western countries as 'the surrender' of Japanese Government to 'Arab blackmail' and was generally regarded as a 'turning point' in Japan-Israeli relations was, in fact, more a declaration of an already existing latent line of policy than a substantial policy shift. The post-1973 pressure from Arab oil producers pushed the Japanese

Government to recognise the Arab arguments even more. The Japanese Government called for the granting of 'the rights of the Palestinians' and for Israeli concessions and withdrawal according to the United Nations Security Council Resolution No. 242. All these demands had been fairly clear in the pre-1973 period. If the oil shock of 1973 had led Japan to be the most pro-Arab nation among leading industrialised countries and to be the strictest follower of the Arab boycott, then it was so because the oil shock facilitated and reinforced a trend already present in Japan's policy.

It would seem that the same sort of argument can be applied to the recent 'change' of Japanese policy with regard to the relations with Israel. Kaifu's remark in Los Angeles and Toyota's announcement that it would start exporting cars to Israel were indeed impressive, as they coincided with the end of the Gulf War during which Japanese banks had even withheld letters of credit to companies operating in Israel. But those moves, however publicised they might have been, did not mean that there was a sharp change in foreign policy or a 'dramatic shift' in the Japanese attitude towards Israel. A similar pattern of events had occurred in the case of the Nikaidō communiqué in 1973. The real'shift' in Japanese attitudes towards Israel occurred much earlier, in the latter half of 1980s, with modest and gradual moves. Inconspicuous but sudden increases in the volume of trade between the two countries, exchanges of semi-official trade missions, exchanges of visits by senior government officials from both sides, including the first official visit of a Japanese Foreign Minister ever to Israel, can all be seen as clear indications of such a shift, despite the fact that Japan tried fairly hard to minimise publicity and to conceal the significance of the events.

It was the Gulf Crisis/War that greatly facilitated such a shift, as in the case of the 1973 crisis when the Yom-Kippur war had provided the impetus for Japan's 'change'. In both cases a war functioned as a catalyst for the manifestation of a policy line that had been tacitly but steadily pursued by the government. Although Japan's initial response to the Iraqi invasion of Kuwait in the summer of 1990 seemed to follow the usual 'bet-hedging' approach which the world expected, the Kaifu Cabinet rapidly found itself in a highly precarious position with no real option other than joining American and European leadership in condemning the invasion, freezing Iraqi assets and banning imports of Iraqi and Kuwaiti oil. Japan chose the path to aid the 'multinational forces' with the total sum of $13 billion, but not without some grumblings and resistance from within Japanese society, which caused substantial delay in the implementation of the aid. The delay, coupled with the constitutional and political dilemma that prevented or severely restricted the dispatch of Japanese personnel, ultimately confirmed Japan's traditional image of being irresolute and non-committal.

As the crisis mounted, so did the frustration against Japan. Belated Japanese assistance reinforced the perception that Japan was acting cravenly. Such a view had been most strongly held in Jerusalem and among American Jewish groups, who perceived Japan as the most slavish adherent of the Arab boycott against Israel. But now the same sentiments became more and more prevalent amongst the ordinary American public whose fellow countrymen and women were risking their lives, while Japan appeared to shirk its responsibilities on some pretext or other. Under such circumstances it was quite natural that the Arab boycott issue came to be regarded as the focus of the Japan-United States-Israel triangle in the aftermath of the Gulf War. Israel started to regard the issue as more substantial than symbolic, whereas the United States began to feel the problem more keenly, not so much for the Israelis as for themselves. Israel, facing the dire necessity of enlarging its economy in order to ‘absorb’ the flood of immigrants from the Soviet Russia, became increasingly desperate to induce foreign investment. As the global economic locomotive fuelling the future seemed to be destined to be led, at least in large part, by Japan, joint ventures and research and development agreements with Japan are everywhere seen to be important. In Israel any form of co-operation between Israel and Japan and related investment are seen to be of tremendous importance for the future of the Israeli economy. Therefore, the campaign to halt Japan's unfair trade practices against Israel, some examples of which were acutely felt by Israelis during the Gulf War, gained significance. Messages were transmitted via the United States' Government which was thought to be the most effective means of exerting such pressures on Japan.

The United States, for its part, owed Israelis for their ‘forbearance’ of not counter-attacking against Iraqi missile raids during the Gulf War. But the Bush Administration acted not merely as an agent of Israeli pressure, but also out of a sense of moral obligation. There was a growing awareness that the Arab boycott, though aimed at Israel, did also hurt American businessmen. Ethical Americans, who felt that

Japan’s performance during the Gulf Crisis had been unacceptable, found themselves at a disadvantage when competing with foreign companies who chose to comply with the boycott. As the post-war reconstruction problem in the Gulf emerged, the boycott issue came to be subjected more and more to keen examination, and the sentiment that American interests had unduly suffered through unfair competition by European and Japanese companies increased accordingly. In such circumstances other nations tended to adopt anti-boycott measures similar to the position of the United States. Repeated expressions of their disapproval of restraint of trade through boycott by the President and Congress made the American public think that it was only right to ensure open and fair trading practices.

The Kaifu-Bush meeting at Los Angeles, mentioned at the beginning of this paper, took place against such a background. As has been argued here, Kaifu's statement on the Arab boycott was in fact more a manifestation of Japan's changing attitude towards Israel which had emerged gradually since the mid-1980s. It is important, however, to emphasise that such changes were brought about by American pressure, and through the articulation of anti-Japanese sentiment in the aftermath of the Gulf War. The existence of influential 'protectionist' practices was also important. Japan will continue to be pressured from the United States to trade freely. Apparently Japan decided it should reduce what it calls 'Japan-bashing' in the United States, and therefore it will try to manipulate the boycott card to indicate compatibility with the United States and not so much to oblige Israel. Now that the 'Arab factor' has receded considerably since the late 1970s, Japan-Israeli relations have come to be seen to be part of the equation which embraces Japan-United States and United States-Israeli relations. It is a paradox that neither Japan nor Israel needs each other to 'strengthen' their bilateral relations.

Notes

CHAPTER 1
JAPAN, THE MIDDLE EAST AND THE WORLD ECONOMY

1 Professor J.A.Allan (School of Oriental and African Studies), Mr Tetsuo Hamauzu (Institute of Developing Economies, Tokyo) and Professor Jurō Hashimoto (University of Tokyo) read an earlier version and made valuable comments. Mr David Morris (Anglo-Japanese Economic Institute, London) provided me with the trade statistics. I wish to acknowledge their support. The usual disclaimer applies.
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CHAPTER 2
JAPAN AND THE MIDDLE EAST

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CHAPTER 3
THE JAPANESE TRADE CONTACT WITH THE MIDDLE EAST

1 I wish to express my gratitude to Professor Geoffrey Jones of Reading University for his constructive comments on an early draft of this chapter. However, I am solely responsible for the entire contents. This chapter concerns the Middle East comprising Turkey, Iran, Egypt and the Arab states and sheikhdoms of south-west Asia, but not North Africa, largely because of the limited space available. However, North African countries are included in the trade figures for the Middle East whenever statistical data are available. Information about the pre-war trade relations between Japan and North Africa can be found in H. Shimizu, *Anglo-Japanese Trade Rivalry in the Middle East in the Inter-war Period,* London, Ithaca Press, 1986, pp. 159–89, 261–9 and *passim.* Unless otherwise stated, Syria includes the Lebanon before 1941. The term Iran is used instead of Persia throughout except in the title of Nakaoka's article.
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Mi$r and Egyptian Industrialization, 1920-1941, Princeton, Princeton University Press, 1983, pp. 148–50; M.A. al-Nayal, *Industrialization and Dependency with Special Reference to Syria: 1920-1957,* Unpublished MSc, The Hague, Institute of Social Studies, 1974, pp. 63–4.

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10 C.Issawi (ed.) *The Economic History of the Middle East 1800–1914,* Chicago, University of Chicago Press, 1966, pp. 38–59; R. Owen, *The Middle East in the World Economy 1800–1914,* London, Methuen & Co. Ltd., 1981, Chapter 3.

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94 Ibid.
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CHAPTER 4
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4 Ibid., p. 6.
5 Ibid., p. 6.

6 Ibid., p. 40.
7 Akira Okabe, *Sekiyu* (Oil), p. 42, 49.
8 US Congress Committee on Foreign Relations, Subcommittee on Multinational Corporations, part 7, p. 63.
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10 Sekiyu Renmei, *Sengo Sekiyu Sangyō Shi* (A History of the Japanese Oil Industry in the Postwar Period), Tokyo, 1985, pp. 68–70.
11 M.A.Adelman, *The World Petroleum Market,* Baltimore, Johns Hopkins University Press, 1972, p. 242.
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13 PIW, 11 August 1969.
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16 Neil H. Jacoby, *Multinational Oil: A Study in Industrial Dynamics,* New York, Macmillan, 1974.
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19 Nihon Sekiyu Kōdan (JNOC), *Sekiyu Kōdan Nij nen Shi* (The 20-Year History of JNOC), Tokyo, 1987, p. 8.
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CHAPTERS 5
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2 Yasunobu Misato, *Iran Sekiyukagaku Purojekuto* (Iran Petrochemical Project), Tokyo, Nihon Keizai Shinbunsha, 1981, pp. 41–6.
3 Ibid., pp. 47–52.
4 Ibid., pp. 50–7.
5 Ibid., pp. 61–2, 84.
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7 Ibid., pp. 52–3.

8 Ibid., pp. 53, 57–60, 68.
9 Ibid., pp. 60, 62.
10 Ibid., pp. 68–9.
11 Ibid., p. 79.
12 Ibid., pp. 89–95.
13 Ibid., pp. 98-9.
14 Ibid., pp. 99–100.
15 Ishiwada, *op. cit.,* p. 85.
16 Misato, *op. cit.,* pp. 145–6.
17 Ibid., pp. 155–7.
18 Ibid., pp. 191,200–201.
19 Ishiwada, *op. cit.,* p. 136.
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21 Ibid., p. 211.
22 Ibid., p. 217.
23 Ishiwada, *op. cit.,* p. 3.
24 Misato, *op. cit.,* p. 243.
25 *Nikkei Sangyō Shinbun,* 11 October 1989.
26 *Nihon Keizai Shinbun,* 12 April 1985.
27 Ibid., 12 October, 1989.
28 *Nikkei Sangyō Shinbun,* 9 February 1990.
29 *Iran Times* (Washington DC), 21 September 1990.

APPENDIX TO CHAPTER 6: JAPAN'S AD) POLICY TOWARDS THE MIDDLE EAST FOLLOWING THE GULF CRISIS

1 The Gulf Crisis raised an issue as to whether Japan should send its troops to the UN peacekeeping forces, and a question, therefore, whether Japan should play its military role as well. The debate in the National Diet has still not come to an end.
2 Ministry of Foreign Affairs of Japan, *Japan 's ODA 1991* (in Japanese), Tokyo, 1991. Its summary is available in English.
3 The main points of Japan's non-ODA co-operation are listed below for reference:

- $11.5 billion contribution for peace restoration efforts. The bulk of this amount was transmitted to a newly-established unit called the Gulf Peace Fund. This amount is derived from an increased tax in Japan which amounted to just about $100 per head. The Government of Japan contracted with the above fund to the effect that the contribution should be spent only in non-combatant areas such as medicine, communication, food and stationery goods.
- Use of equipment of the Japanese Self-Defence Forces. It was decided that a cargo plane for rescuing refugees and minesweepers in the Gulf should be dispatched from the JSDF. After some

argument in the Diet, it was made clear that they were not for combatant use.

- UN peace keeping operations. Japan has extended financial cooperation of $7 million to the United Nations Iraq-Kuwait Observation Mission (UNIKO) and has also dispatched a political affairs officer to it
- Other diplomatic endeavours are far too numerous to count. To name but one, the then Prime Minister Kaifu visited the region himself in October 1990, and had discussions with the First Deputy Prime Minister Ramadan of Iraq, in Amman, Jordan.

4 It should be noted here that Japan treats the question of weapons with a particular sensitivity, originating from its Peace Constitution. Japan upholds a national policy; Japan provides no military assistance; Japan neither sells nor gives weapons abroad; and Japan does not extend any economic assistance to be used by recipient countries for military purposes.

5 Japan's willingness to participate in the multilateral talks was publicly expressed in a statement made by the spokesman of the Ministry of Foreign Affairs on 2 November 1991.

6 Ibid.

7 See *Japan's Post Gulf International Initiatives,* edited by the Ministry of Foreign Affairs, Tokyo, August 1991, p. 56. It contains seven articles prepared by the top echelons of the Ministry. It does not, however, include an article which discusses ODA activities specifically.

8 It can be said that it was by the end of the 1980s that Japan had developed a national consensus to play a more active role in establishing world order. In 1988, the International Co-operation Initiative was announced which consisted of co-operation for peace, promotion of international cultural exchanges and expansion of ODA to developing countries.

CHAPTER 8
JAPAN AND THE MIDDLE EAST IN THE 1970s AND EARLY 1980s

1 *Editorial Note* This chapter is based on the speech made by the author as Ambassador at the Conference "The Japanese Approach to the Contemporary Middle East' held at the School of Oriental and African Studies, on 5 October 1990.

CHAPTER 9
JAPAN'S RELATIONS WITH ISRAEL

1 Kaifu's remark was brought about as a response to President Bush's call for a 'confidence building measure' for peace by ending the compliance with the boycott. It was apparent that Japan looked at the issue through the prism of

the Japan-US relationship above all else, and not through relationships with Israel or the Arabs.

2 Toyota's announcement to start the delivery in November 1991 came on 11 April, exactly one week after the Kaifu-Bush meeting. Toyota's entry to the Israeli market will be largely of symbolic rather than commercial significance, as other Japanese-made cars have already been sold there. Fuji does not do business with the Arabs, and its model Subaru accounts for 30 per cent of the 100,000 cars sold every year in Israel. Mitsubishi, Honda, Daihatsu and Suzuki are all present in the Israeli market, but their cars are sold by their foreign subsidiaries, not by Japanese parent companies.

3 Exports from Israel to Japan amounted to $869.7 million in 1990, making Japan Israel's second largest export market next to the United States. Israeli imports from Japan, on the other hand, remain the less spectacular sum of $545.5 million for the same year, making Japan eighth in the Israeli ranking.

4 In fact, Israel was one of the first Middle Eastern countries that established diplomatic relations with Japan after World War II, earlier than Egypt.

5 One of the most notable events was the 'Six-Day War'. It marked a watershed of general images of Israel which shifted from the country of heroic survivors of the holocaust to the regional military power, and from the settlements of 'kibbutzniks' to those of occupation.

6 The main points of the Nikaidō communiqué were to urge Israel to withdraw from all territories it had occupied during and after the 1967 war, and to stress the right of Palestinian self-determination as a precondition of a peace process, warning Israel of the possibility of 'reconsidering' their relationship.

7 For further details of Japan's response to the oil crisis in 1973, see Kunio Yanagida, *Nihon Wa Moete-iruka?* (Is Japan Burning?), Tokyo, Kōdansha, 1983; Kenneth Juster, 'Foreign policy-making during the oil crisis', *Japan Interpreter,* 11, Winter 1977, pp. 293–312; Yoshi Tsurimi, 'Japan', in Raymond Vernon, *The Oil Crisis,* New York, W.W.Norton & Co., 1976; Michael Yoshitsu, *Caught in the Middle East: Japan's Diplomacy in Transition,* Lexington, Mass., D.C. Heath & Co., 1984.

8 For the consistency of Japan's stance through the pre- and post-1973 era, see Roy Licklider, 'ZArab oil and Japanese foreign polic', *Middle East Review,* Fall 1985, pp. 23–9; Ben-Ami Shillony, 'Japan and Israel: the relationship that withstood pressures', *Middle East Review,* Winter 1985, pp. 17–19.

9 Such a distinction between American specialists and Arabists, however, by no means corresponds to the political camps of pro-Israel and anti-Israel, nor are they necessarily identifiable with 'liberals' and 'nationalists' as is often the case with the ideologues in the 'Middle East intellectuals'. An example of the actual operation of such a distinction is analysed in Yasumasa Kuroda, 'The oil crisis and Japan's new Middle East policy, 1973', *Annals of Japan Association for Middle East Studies,* vol. 1, 1986.

10 Details of some arguments by those ideologues are introduced and analysed, although in a rather critical and controversial fashion, in the books by Professor Masanori Miyazawa. See Miyazawa, *Yudayajin Ron Kō* (On the Arguments of Jewish Problems and Jews), Tokyo, Shinsen-sha, 1982 (enlarged edition); *Nihonjin no Yudaya/Israel Ninshiki* (The Japanese Perception of Judah and Israel), Tokyo, Shōwadō, 1980.

11 Mitsui's petrochemical plant project in Iran (IJPC), Mitsubishi's similar project in Saudi Arabia and its penetration into Iraq, were all well-known examples of this. See Kazuo Takahashi's chapter on IJPC in this volume, and Yoshitsu, *op. cit.,* p. 85 on Saudi Arabia.

12 Even if the Japanese Government is as *laissez-faire* as it officially contends, however, in reality it needs no formal guidance or restrictions to comply with the boycott. Although the perception about 'Japan Inc.'—that the Japanese Government and industry are inseparable and work hand in glove —is exaggerated to a certain extent, their informal relationships seem to be intimate enough for the private companies to know that they should not get involved in the trade with Israel as soon as they hear the idea. The reality is that it needs a jolt from the government before the companies feel sure that the message has changed and seriously consider trade.

13 The figures are provided by the economic section of the Israeli embassy in Tokyo.

14 The Japanese mission was headed by Nihachiro Hanamura, the Vice-President of the Keidanren.

15 Although this visit by Sōsuke Uno, the then Foreign Minister of the Takeshita Cabinet (who was to succeed in the premiership for a very short period of time in 1989), was regarded by some as a symptom of the 'changing wind', Uno himself prefaced his trip by saying it should not be construed as a shift from Japan's traditional (that is to say 'pro-Arab') policy. In fact, Uno's visit to Israel lasted only twenty-four hours, and a considerable amount of that time was spent on a meeting with Palestinian representatives from the occupied territories.

16 American frustrations against Japan were in fact reaching a peak towards the end of the 1980s, as was shown by the passing of the Omnibus Trade and Competitiveness Act of 1988. The Japanese anxiety about such American 'aggressive unilateralism' turned out to be far from imaginary, as Japan was actually specified as 'PFC' (Priority Fixed Countries) together with India and Brazil, the main targets of the notorious 'super 301' trade policy of this unilateralism, in May 1989.

17 Bookstores in large parts of Japan were vying with one another in setting up 'Jewish comers' or 'Jewish shelves', and the publication of more than eighty different sensational books resulted. Their front covers included a bearded Hasidic elder, a grasping Jew toting moneybags and a conspiratorial montage of Lenin, Henry Kissinger and Charlie Chaplin. Titles were also intended to appeal to instinct rather than to reason. 'If you understand the Jews you can comprehend the world', by Masami Uno, the main instigator and agitator of the boom, was the bestseller which sold more than 600,000 copies. A sequel by the same author entitled 'If you understand the Jews you can comprehend Japan' sold almost half a million copies within months. 'How to read the hidden meaning of Jewish protocol' and 'Make money by investing in stocks that interest Jews' were said to have sold more than 100,000 copies each. Some monthly magazines such as *RekishiTokuhon* (History Magazine) devoted one entire issue to Jewish themes. It was indeed a genuine 'boom'.

18 Until March 1987, this 'Jewish books' boom went basically unopposed both in Japan and abroad. On 12 March 1987, an article appeared in the *New*

York Times entitled 'Japanese writers critical of Jews', which was followed by articles in *Newsweek* (23 March 1987), *Guardian* (UK, 18 March 1987), *Evening Standard* (Australia, 23 March 1987), *Philadelphia Inquirer* (26 March 1987), *Washington Post* (17 May 1987), among others.

19 On the political level, Sen. Arlen Specter (R, PA.), and Rep. Charles Schumer (D., NY), sent a joint letter to then Prime Minister Yasuhiro Nakasone calling upon him to take action to prevent the spread of 'antiSemitism' in Japan. A delegation from the Anti-Defamation League of B'nai Brith led by its national chairman, Burton S.Levinson, met with the then Japanese Ambassador to the United States, Nobuo Matsunaga, to lodge a protest with the Japanese Government over the anti-Semitic literature being published in Japan. Tadashi Kuranari, the then Foreign Minister of the Nakasone Cabinet, responded to a question about Japanese anti-Semitic literature in a formal session of the Diet on 4 September 1987, by stating that: 'I must say the argument that the problems Japan faces today are due to a global conspiracy by the Jews is totally untrue and irresponsible.'

20 In this regard, some articles that appeared in key intellectual magazines and dailies were important. An article by Herbert Passin, a leading Japanologist at Columbia University, appeared in the April 1987 issue *of Bungei Shunj* , an influential monthly, detailing the inaccuracies of these Jewish conspiracy theories and scoffing at their credibility in a highly intelligent manner. Shuichi Katō, a prominent critic, argued that the phenomenon might indeed be a dangerous symptom for pernicious racism and nationalism (*Asahi Shinbun,* 15 June 1987). Other articles were also published from time to time by a spectrum of respected Japanese writers to create an atmosphere that right-minded people should have some knowledge about the true history of Jews, that the argument to set Japanese 'mono-racial myth' against Jewish 'internationalisation' had to be refuted. Concomitantly, to parrot Arab propaganda came to be generally regarded as ill conduct for 'intellectuals'.

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Note: numbers in italics refer to tables or figures where these are separate from their textual references.