

GULF ASIA



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Some call it a “real shift”; others think it is nothing but “hype”. If one takes into account the fact that the trade bill between the Gulf and Asia tripled during the last six years, it supports the real shift argument. However, what encourages believers of the hype theory are reports suggesting that Gulf investors are set to transfer their portfolio allocation towards Asia by up to 30 percent over the next five years, and that China and India are likely to overtake the traditional markets for Gulf investment in Europe and the US within a decade.

For now, however, there is no doubt that the Gulf-Asia relations are on an upward trajectory at a time when Asia is witnessing robust economic growth and the Gulf is attempting multi-dimensional changes that hold the potential to influence the Middle East. For a start, energy issues are influencing the political economies of the Gulf countries and slowly, but surely, reshaping international relations too. This scenario has given scope and aided the reestablishment of the old “Arab-Asian” or East-East bonhomie and thrown open the doors for synergy to accomplish optimum mutual benefits not just in the economic realm, but much beyond as well.

On the other hand, the paving of the new Silk Road, ‘rediscovery’ of interest in each other and plans to build a new outlook could be sluggish because of the intrinsic multi-faceted differences

on both sides, and could even throw a spanner in the works.

Nevertheless, according to an analyst: “A new strategic tapestry is in the process of being formed, its threads being hydrocarbons, petrodollars, consumer products and technologies, military ties, labor migration, even religion.”

This issue of the Gulf-Asia Research Bulletin seeks to address many of these matters. More importantly, it attempts to analyze not just the evolving relations between the Gulf Cooperation Council and Asian countries, but also the way these relations are intertwined with some of the Asian countries’ ties with Iran and their involvement in Iraq, as well as their impact in the long term.

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With the support of the Ministry of Foreign Affairs and the
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02

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Editorial Policy

The Gulf-Asia Research Bulletin seeks to document relevant data and address the current information deficit in this area. The articles in this publication do not represent the opinion of the Gulf Research Center, but that of the individual author. The Gulf-Asia Research Bulletin is a triannual publication and can be accessed on the GRC website at www.grc.ae

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Time to Convert East-East Opportunity into Strategy



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The visits of King Abdullah bin Abdulaziz of Saudi Arabia and Amir Sheikh Sabah Al-Ahmad Al-Sabah of Kuwait to six Asian countries during 2006 are a recognition of the increasing significance of Asia as an economic ally at a time when, first, the economies of the Gulf Cooperation Council (GCC) countries are robust following high oil prices and need new avenues to invest and diversify; and second, Asia's oil consumption is soaring amid an economic boom.

The itineraries of the two leaders included Bangladesh, China, India, Malaysia, Pakistan and Thailand – some of the most influential Asian countries in the political, economic and military spheres. From a demographic angle, the fact that these countries represent more than 40 percent of the world's population and host more than 70 percent of the world's Muslims added value to their visits. On the other side, Asian leaders reciprocated with heads of state from China, Indonesia, South Korea and Pakistan visiting the Gulf region to lend momentum to the newfound relationship.

Gulf-Asia ties signal a win-win situation economically, based purely on complementarity of interests. The GCC countries are attempting to make sure that future Asian economic growth includes their contribution through uninterrupted energy supply. For example, Saudi Aramco now does almost half of its business in

Asia and has more offices there than anywhere else in the world. By guaranteeing oil supplies, it could be a calculated move to prompt a decisive tilt by some of the Asian countries away from Iran, which is a big competitor in the energy market.

There could be a political motive as well. While it could serve as a tool to erode Iran's ties with India, China and Japan, the GCC could be looking to use the influence of such countries, which have reasonably good to very good relations with Iran, to defuse the current stand-off over the nuclear issue. In a similar vein, in dealing with India without linking it to Pakistan, and warming up to China, the GCC countries are putting economic pragmatism ahead of religious ideology.

The GCC countries also realize that solutions to many of their problems – including unemployment, need for better education, economic diversification, advancement in the field of science and technology, etc. – lie in linking up with Asia. As part of "a new age of Arab-Asian cooperation",¹ Saudi Arabia has included Japan, Singapore, Pakistan, India and Malaysia as the new non-Western destinations that the Kingdom is keen to collaborate with in the higher education arena, which holds the key to indigenous development.

Beyond these, there is the profitability of business ventures too. Some of the Asian countries are selling their ideas with the slogan of 'more value for your money.' They are suggesting that what costs \$100 in the West, only costs \$15 in the East. This sets the stage for GCC investment in the infrastructure projects of the Asian countries, while also opening the GCC economies for foreign investment, which Asian countries are ready for. With the GCC countries flush with liquidity, the Asian infrastructure sector, which is greatly lagging, is a sure attraction with scope for rich returns. The region stands to benefit immensely from Asia's expertise and readiness to invest in key sectors such as desalination,

¹ Saudi Crown Prince Sultan bin Abdulaziz's remark during a visit to Japan in May 2006.



power generation, gas exploration, minerals, air transport, airports, seaports, services and telecommunications. All this sets the stage for cross investment, which is a departure from the past and puts both sides on a level playing field.²

A New Strategy for Separate Alliances

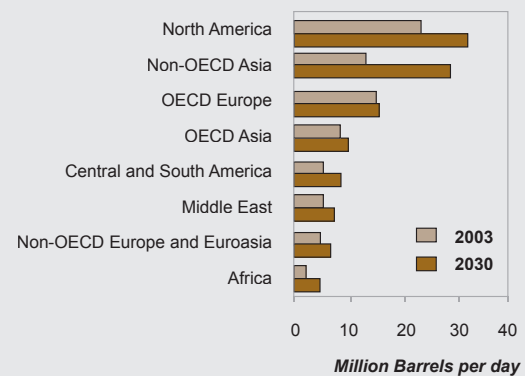
Thus, the GCC countries are against putting all eggs in one basket anymore. They perhaps realize that if the 19th century belonged to the British and the 20th to America, then the 21st century could well belong to Asia. Their friendship with a spectrum of nations is widening, which marks a new strategy for separate alliances in the security and economic spheres. In this context, the 'Look East' policy is not a replacement for their ties with traditional ally United States but could, however, be an effort to restrict Washington's influence. This means that the GCC-US ties are no longer exclusive.

This 'shift' in approach is a reflection of the GCC countries being at ease in dealing with Asia because it carries no excess political baggage. Asian countries are not interested in linking political reforms in the region to economic ties. They have come to terms with the need for greater liberalization and are positioning themselves to take advantage of a globalized business environment. Their emphasis on economic reforms over political reforms and criticism of

Washington's anti-terror campaign in the Middle East are definitely in sync with the GCC countries.

At a broader level, the GCC's evolving shift toward Asia is logical. Asia's consumption of oil amounts to 23 million barrels per day (mbpd), which is 30 percent of the world's demand. World oil demand is estimated to increase by 47 percent between 2003 and 2030, with just China and India accounting for 43 percent of the rise.³ Asia's consumption is expected to reach 39 mbpd by 2025, a growth of over 50 percent of the total increase in global

World Oil Consumption by Region and Country Group - 2003 and 2030



Source: US Energy Information Administration, *International Energy Outlook 2006*.

Table 1: Oil Consumption: Reference Case (1990-2030)
(Million barrels per day)

Region/Country	History			Projections					Average Annual Percent Change 2003-2030
	1990	2002	2003	2010	2015	2020	2025	2030	
China	2.3	5.2	5.6	8.7	10.0	11.7	13.2	15.0	3.8
India	1.2	2.3	2.3	2.9	3.3	3.7	4.1	4.5	2.4
Other Non-OECD Asia	3.1	5.5	5.6	6.9	7.7	8.5	9.4	10.3	2.3
Japan	5.2	5.5	5.6	5.4	5.5	5.4	5.5	5.4	-0.1
South Korea	1.0	2.1	2.2	2.6	2.9	3.0	3.2	3.5	1.7
Australia / New Zealand	0.8	1.0	1.0	1.1	1.1	1.1	1.2	1.2	0.6
Total World	66.6	78.5	80.1	91.6	98.3	104.1	110.7	118.0	1.4

Source: Adapted from US Energy Information Administration, *International Energy Outlook 2006*.

2 Saudi Aramco opened an office in Shanghai in November 2006; the China National Offshore Oil Company is in talks with Qatar for liquefied natural gas supplies; PetroChina is studying plans with Kuwait to build a refinery and petrochemical complex in South China; Saudi Aramco is negotiating refinery joint ventures in China; India is inviting Saudi investment in oil refining and fuel retailing and is exploring opportunities to invest in developing gas fields in the kingdom; two Indian oil companies are in discussions with Saudi Aramco for possible investment in India, which is associated with the likelihood of a joint venture in the Yanbu refinery.

3 *International Energy Outlook 2006*.

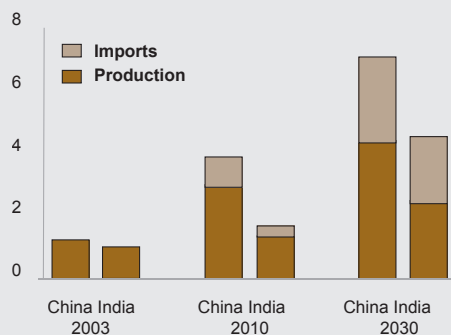
demand. Asia currently imports around 16 mbpd (with 12 mbpd coming from the GCC countries), which could double to 32 mbpd by 2025.⁴ Given the developments in the Gulf gas industry, the 'fuel of the future' will open a new front for cooperation and business with Asia.⁵

China currently imports 32 percent of its oil (58 percent

of which comes from the Middle East), but this is likely to double between now and the end of the decade. China's gas consumption is rising at an even faster pace, with imports projected to increase from zero in 2000 to 20-25 million cubic meters by 2010. China has adopted a strategy of diversification by investing in oil/gas fields in more than 20 countries around the world. During 2006-2010, Guangdong Province is expected to invest \$22.3 billion to build five petrochemical bases. Additionally, five refining expansion and new refining projects, five ethylene projects and some downstream chemical projects are on the anvil with the assistance of foreign companies.⁶ Further, China will account for 19 percent of the world GDP by 2050, which is equal to that of the US, Europe and Japan combined; and India will be just behind at 18 percent, which is great news for the Gulf countries in terms of opportunities.⁷

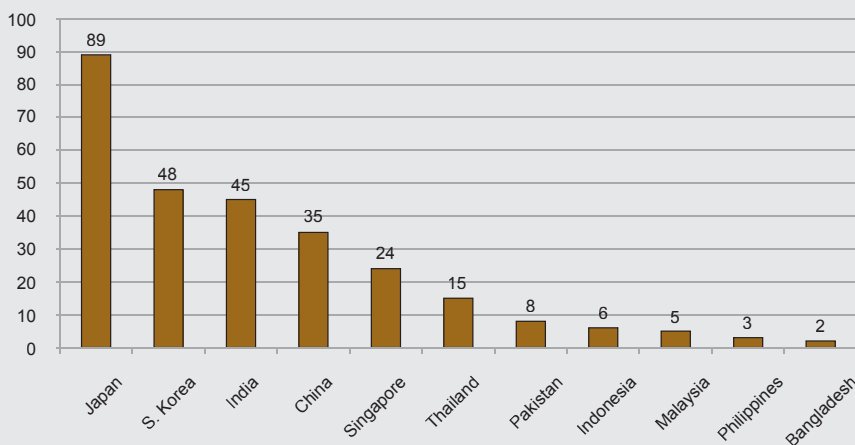
Cooperation between the two sides in the oil sector is thus a key element to ensuring both security of supply for Asian consumers and demand for GCC oil producers. The crux of the new oil diplomacy rests on promoting cooperation between oil importers and exporters. Countries like India and China are taking the lead in strengthening "security of supply" by building emergency oil supplies and expanding the use of renewable fuels to ward off the impact of energy being used as a political lever in international affairs. China's strategic oil reserves are expected to grow from 10 million barrels to 100 million barrels during the next two years.⁸ India's plans include building reserves of five million tons by 2008 to cover 15 days' domestic demand for oil products. To achieve their missions, both countries are searching for new reserves, augmenting supplies from traditional suppliers and sealing acquisition deals abroad.⁹ These energy issues

Natural Gas Supply in China and India by Source - 2003-2030



Source: US Energy Information Administration, *International Energy Outlook 2006*.

GCC-Asia Trade (2005 - billion US\$)



Source: Compiled by Gulf Research Center using multiple sources

4 Of their current oil (including natural gas liquids) production of around 18 mbpd, or 22 percent of global production, GCC exports around 16 mbpd (close to one-third of global oil trade), two thirds of which (12 mbpd) is exported to Asia. See Adnan Shihab-Eldin, "GCC- Asia Strategic Relation: Development, Opportunities and Challenges", Background Paper for the International Monetary Fund/World Bank Program of Seminars, Singapore, September 16-18, 2006.

5 India has sought 10 million tons of Liquefied Natural Gas (LNG) from Qatar, in addition to the 7.5 million tons of LNG already committed by Doha and offered it an equity stake in India's Petronet LNG Ltd. Kuwait News Agency, October 6, 2006.

6 "China's Policy in the Gulf Region: From Neglect to Necessity," *Power and Interest News Report* (United States and Italy), October 27, 2006.

7 Wharton School of Business assessment quoted in Arab News (Saudi Arabia), December 7, 2006.

8 Bloomberg and Reuters, December 13, 2006.

9 For more, see N. Janardhan, "What Oils the Wheels of GCC-India Cooperation," *The Daily Star*, August 12, 2005; and Stein Tonnesson and Ashild Kolas, "Energy Security in Asia: China, India, Oil and Peace," International Peace Research Institute (Oslo), April 2006.



are likely to influence the political economies of the GCC countries and shape international relations in the coming decades.

Further, more than half of the GCC exports go to Asian countries, while a third of the GCC imports are from Asia. Together, the GCC-Asia trade bill is nearly \$300 billion (it almost tripled between 2000 and 2005), which will certainly grow as negotiations for free trade agreements with China, India, Japan, Singapore and Pakistan, among others, bear fruit.

Beyond the oil and trade dynamics is the human element. Approximately 70 percent of the GCC labor force is made up of expatriates, who send home nearly \$30 billion as remittances annually. Of the 12.5 million expatriates in the region, about 70 percent are Asians.

Most importantly, for the GCC countries, the partnership with Asia serves as a platform to convey their determination to break the conservative stereotype attached to them in the international milieu and showcase their new relentless march on the path of reform and progress to become part of the globalized world. Recognizing all these factors, the GCC Chambers of Commerce and Industry has called for prioritizing economic cooperation with Asian countries.

The new bonhomie has been termed “East-East opportunity.” It is estimated that Middle East buyers will snap up some \$20-30 billion in Asian assets during 2007, with a focus on real estate and industrial companies. Middle Eastern countries accounted for less than one percent of \$1.5 trillion of foreign direct investment in

American businesses and real estate in 2006. China and India are expected to become the most important markets for GCC investments.¹⁰ The two countries will thus overtake the traditional markets for Gulf investment in Europe and the US within a decade, if current trends continue.¹¹

State-owned Kuwait Investment Authority (KIA) is considering stakes in Chinese financial firms and infrastructure projects in India and Pakistan as part of a push to double its investments in Asia. The KIA, with assets worth an estimated \$100 billion, decided in 2005 to increase the Asian share of its portfolio from 10 to 20 percent. Some UAE-based companies like Emaar have invested over \$20 billion in Pakistan’s real estate sector, and Dubai Ports World, \$10 billion. Emaar has also entered into a \$43-billion joint deal with Port Qasim Authority to develop two island projects near Karachi over 13 years.¹²

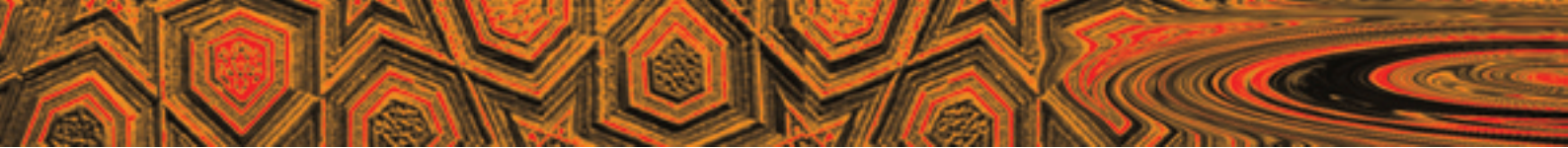
It is worth watching how the vision of the GCC countries to use Singapore as a hub to explore investment opportunities in Asia will unfold in the future. Malaysia too is acquiring importance among the GCC countries because it is being viewed as a successful model of a modern Islamic state. Championing the view that Islam and modernity are not mutually exclusive, Malaysia is now calling for strengthening trade and economic links among Muslim countries in order to benefit from the globalization process and to move into the mainstream of the global economy. Malaysia has every right to make that call because its prescription is borne out by its own success in achieving prosperity by promoting a knowledge-based economy.

07

GCC Government Revenue and Expenditure (2005 – billion US\$)

	KSA	UAE	Kuwait	Oman	Qatar	Bahrain	Total GCC
Hydrocarbon Revenue	134.5	49.7	44	12.3	11.31	3.4	255.51
Total Revenue	148.2	64.1	55.8	14.8	16.9	4.4	304.1
Expenditure	91.1	29.2	24.5	11.1	12.9	3.4	172.2
Balance	57.1	34.9	31.3	3.7	4	1	132

10 In terms of investment opportunities, India expects that it needs about \$320 billion for infrastructure development by 2012. Bloomberg, October 8, 2006.
 11 Heather Timmons, “The Middle East Is Buying into Asia,” *The New York Times*, November 30, 2006; and remarks by David Hodgkinson, Group Chief Operating Officer, HSBC, at the Euromoney/DIFC Annual Conference in Dubai in November 2006.
 12 *Khaleej Times*, June 1, September 28, and November 18, 2006.



Security Dynamics

The emerging Gulf-Asia ties have the potential for expanding into the security sphere too. In the Gulf, the US has been inept in dealing with the Iraqi and Iranian security issues. Given the added pressure of the region not coming up with alternatives, two schools of thought prevail: one urges less international involvement in the region's affairs and the other, more.

In an indication of the region realizing that less external involvement is more difficult than further internationalizing the region, the emerging view is that guarantees for Gulf security cannot be provided unilaterally "even by the only superpower in the world". Instead, the region requires guarantees "provided by the collective will of the international community."¹³

The events leading to these and similar reactions in the region have forced the GCC countries to build ties with others, particularly in Europe and Asia. Some of these countries have one factor in common: they are "regional plus" powers; their political weight goes well beyond their geographical borders, though not as far as to give them a global reach or global ambitions. This gives them a perfect stake in developing a multi-polar world that can resist any single nation's efforts to achieve dominance.¹⁴

While cultivating the new relationship, the region is linking its economic interests and security needs. Asia and Europe are willing to cooperate and ensure safety and security of sea-lanes and of communications; safety and freedom of navigation in the shipping lanes and trade routes; as well as combat religious extremism and/or transnational terrorism, narcotics trafficking and proliferation of weapons in the region. The fact that the GCC countries are willing to consider alternatives despite US reservations is the "real strategic shift" in the region.

While energy security is certainly a factor, economic might has led the Asian countries to slowly showcase their power and influence in the region. This expanded security perspective is driven by necessity, ambition and

opportunity. The desire to lead coincides with their rise as major powers with continental aspirations. China's growing ties with Iran have resulted in the latter joining the Shanghai Cooperation Organization as an observer, which could counter US influence in Central Asia. India too has identified the Gulf as part of its "sphere of influence" and wants to "pursue closer economic relations with all neighbors in our wider Asian neighborhood."¹⁵

Conclusion

Notwithstanding the historic ties between the GCC countries and Asia, which have been sustained by the current oil, trade and expatriate dynamics, the way forward for a robust bilateral relationship rests on developing a paradigm that hinges on strategic political, economic and security dimensions. With several factors contributing to the rediscovery of the GCC-Asia relationship, it is time to convert the 'opportunity' into a 'strategy'. The common political and security concerns translate into efforts for peace and stability on both sides. While the GCC countries are going through important transformations, the GCC-Asia relationship needs to go beyond traditional issues. This involves joint efforts to meet domestic and regional challenges.

A GCC-Asia relationship based purely on selling and buying of oil could be untenable for too long in the future. The premise is that the GCC countries would take Asia seriously only if it is willing to be involved beyond trade. At the same time, the GCC countries need to take note that Asia's list of energy suppliers is increasing. It is possible that India may follow the US, which gets more oil from Africa than the Middle East (imports of African oil reached 921 million barrels or 18.7 percent of the US total in 2005, compared to 839 million barrels or 17 percent for the Middle East), or China which gets more crude supplies from Angola than Saudi Arabia. The Indian and Chinese quest to expand their sources of energy has even touched nuclear frontiers. With a view to strengthening and diversifying relations, it is thus imperative for both Asia and the GCC to acquire fresh dimensions to consolidate their positions in a fast-changing world.

13 Saudi Foreign Minister Saud Al-Faisal's remarks at the Gulf Dialogue meeting in Manama in December 2004.

14 See Jonathan Steele, "India's Revival Means It Can Pick and Choose Its Friends," *Guardian*, February 24, 2006.

15 For more on these issues, see Christian Koch, "Gulf Region Makes Strategic Shift in New Global System," *Arab News*, October 22, 2006; "Gulf Needs More, Not Less, External Involvement," *Gulf in the Media* (UAE), January 27, 2006; N. Janardhan, "GCC-India Relations: Economy First, What Next?," presented at a conference on "India and West Asia-North Africa in the era of globalization," New Delhi, November 9-10, 2006; and Tanvir Ahmad Khan, "Taking a Broader View of Security in the Gulf," *Gulf News*, July 13, 2006.



The GCC may be uncomfortable with some Asian countries' ties with Israel and Iran. However, there is no doubt that these Asian countries will not compromise on their strategic interests and downgrade their relationship with Tel Aviv and Tehran to accommodate the GCC's reservations. Instead, the GCC could use it to its advantage by engaging the Asian countries in the role of honest broker in GCC-Iran relations.

However, in the process of moving forward, the real challenge is in turning economic strengths into a factor of regional security. The dilemmas in the Gulf region could ease if the GCC countries and Asia evolve new ideas of collective security that go beyond the restrictive patterns of the past. But with some of the Asian countries suggesting that they are willing to play a proactive role by sharing their experience in maritime security, military training, and combating terrorism, they may also be indicating just how far they are willing to go, which, in fact, is not far enough

for the long-term security concerns of the Gulf countries.

This raises many questions:

- Will the Asian countries stick to involvement only in soft security issues?
- If they go beyond, will it mirror the US approach or will it be distinct and non-controversial?
- Even if they are interested in a wider role, how effective will they be?
- Will the energy competition among some of the Asian countries, notably India and China, allow for compromises and cooperation on security issues?
- More crucially, are the GCC countries looking 'out of the box' for their security or is the US making a mountain out of a molehill while expressing long-term fears about China's – and possibly India's – intentions in the regional security architecture in the future?

UAE Vice-President and Prime Minister, and Ruler of Dubai Sheikh Mohammed bin Rashid Al-Maktoum and Indian Prime Minister Dr. Manmohan Singh in New Delhi in March 2007



Forum Backs GCC-Pakistan Counterterror Strategy

A two-day workshop held in Islamabad on March 8-9 focused on the emerging trends in strategic relations between Pakistan and the Gulf States. The workshop jointly organized by the Gulf Research Center and the Institute of Strategic Studies Islamabad was divided into three sessions focusing on the political, economic and security aspects of the longstanding and deep-rooted bilateral relations and brought together eminent analysts from both sides.

Pakistan sees itself as an extension of the Middle East and Gulf States and is deeply concerned about the issues that are currently of grave concern to the Gulf. Some major issues that were extensively discussed were the continued repression in and occupation of Palestine, the crisis in Iraq that has spiraled towards sectarian strife and civil war, the regional repercussions of the war on terror, and the fallout of the US policies and intervention in both Iraq and Afghanistan, as well as the looming crisis in Iran that threatens to escalate into a military confrontation. The need to strengthen the strategic partnership to collectively resolve political problems facing the region and address other vital issues such as poverty, water scarcity, energy shortages, global warming, and natural disasters was discussed.

However, Pakistan, in the face of the changing geostrategic environment, would have to reappraise and evolve a package of political, economic, security and cultural

policies to safeguard its interests in the Gulf region. These policies would have to aim at strengthening peace and stability in the region, extending cooperation to check sectarian strife, developing close cooperation in the security field and in the fight against terrorism, and enhancing Pakistan's competitiveness in the Gulf markets.

The security crisis in Afghanistan is of grave importance to Pakistan which faces a multitude of problems at present including an ongoing conflict in its tribal areas bordering Afghanistan. A significant point made by the Gulf participants was that Pakistan ought to be actively involved by the international community in bringing about stability in Afghanistan.

To enhance the existing cooperation on counterterrorism, steps should be taken to facilitate direct, one-to-one cooperation between the states, develop a legal framework and establish a direct link between the intelligence communities of both Pakistan and the Gulf States. Establishment of a permanent committee on counterterrorism under the auspices of the Gulf Cooperation Council (GCC) would be crucial for the free exchange of information regarding terrorist activities as well as cooperation in monitoring them. Such exchange of information is necessitated by the fact that approximately 1.7 million Pakistanis are presently working in the Gulf and that this group could be infiltrated and exploited by terrorist organizations.

The participants from the Gulf felt that Pakistan should understand that Iran was perceived as a major threat within the Gulf and hoped that Pakistan would play a stronger role in pressing Iran not to pursue a militarized nuclear program. Pakistan's position was clear that there should be a Middle East nuclear free zone, which included both Iran and Israel. However, it feels that the Iranians have to address the security concerns of the Gulf States and the region and lower their belligerent rhetoric. Another major apprehension on the Pakistan side was the heavy US military presence in the Gulf within close proximity and easy reach of Pakistan's commercial shipping routes. It was felt that there was an





immediate need to initiate a strategic dialogue between regional states whereby increased communication with Iran should be established. In case of conflict, Pakistan would act as a mediator with both the Gulf States and Iran and will try its best to resolve the crisis.

An interesting proposition put forward in regard to the security concerns in the region was that a Regional Security Architecture be established where Pakistan could play an effective role in the collective security of the region, including maritime security. This would enable the regional states to be included in a broad framework with a checklist of issues that need urgent resolution, starting with Iraq. It may also look at the creation of an Islamic Peacekeeping Force under UN auspices including troops from those countries that do not have direct borders with Iraq. The security architecture may also provide a mechanism for the resolution of any regional disputes and deal with the presence of extra regional powers in the region that are perceived by some as support and others as a threat by minimizing the need for such powers in the region.

It was felt that the longstanding military cooperation between Pakistan and the Gulf States that could have been much stronger has lessened over time due to the following factor: Pakistan's lack of a clear cut military policy or concrete agreements on the military side has led to a vacuum that is now being used by other countries and is responsible for it losing ground with the Gulf States. In terms of soft security issues, such as narcotics and human trafficking, there is a marked need to develop stronger regional cooperation to counter the two illicit organized crime activities.

In the economic sphere, despite large scale investments by the Gulf States in Pakistan, there is a sense

of complacency that governs the bilateral economic relationship. In this regard, Pakistan needs to do a lot because it faces increased competition in the era of globalization. Pakistan should take advantage of the GCC integration which could be very beneficial to it. Under the foreign liberal investment laws in the GCC, Pakistani companies could avail of financing from government and even private financial capital. As for Gulf investments in Pakistan, there are vast areas of cooperation in sectors such as energy and minerals. To further such cooperation it was proposed that an Arab-Pakistan Energy & Mineral Infrastructure Development Fund be created.

As regards the labor market, Pakistan continues to send large numbers of its labor force to the Gulf States and this is a valuable source of remittances. To bring further improvements in this area, Pakistan should discuss with the Gulf States and try to develop a strategy that looks into the number of complementarities existing between the two.

The workshop concluded with both sides having agreed on further institutional collaboration by holding meetings and conducting research on key issues of concern. The need to evolve a collective regional mechanism where security and defense issues are jointly addressed was spelt out. Developing the capacity to deal effectively with issues such as terrorism, narcotics and human trafficking, based on the existing strong relations between the two regional partners was an integral step towards strengthening those ties and taking them to another level. It was agreed on both sides that the complacency in economic relations must be done away with and both sides should facilitate a more proactive approach in terms of opening channels of investment and economic development.



Chindia and the GCC: Emerging Interdependence and Potential for Regional Integration



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Introduction

With the continued integration of national economies in the ambit of globalization, regional economic configurations are witnessing a qualitative change. This regional shift is also quite evident in the global energy market. Currently, the Asian region is not only at the center of the global economy, but also at the heart of the global energy economy. The structural transformation of the global energy market, primarily facilitated by the seasonal and cyclical tenets of the global economy, show the increasing pattern of interdependence between the 'demand heartland' – consisting of the large economies of India, China and others – and the 'supply heartland' – the Gulf Cooperation Council (GCC) countries – in the global energy regime. In fact, the evolving energy-related links between Chindia¹ and the GCC has taken center stage in the contemporary discourse on global energy security. The emerging pattern of interdependence, centering on energy, is not only transforming economic relations among China, India and the GCC, but also points to the potential for greater regional integration in Asia. This article is

an attempt to look at the evolving linkages centered on the energy-economy and its plausible implications for regional integration through an analysis of recent trends.

Chindia and GCC in the Global Economy and Energy Landscape

Currently, Chindia and the six-member GCC are strategically positioned in the world economy. The sheer blistering growth propelled by manufacturing exports in China and services and domestic consumption in India, supplemented by the oil boom-led growth in the GCC countries are the major determinants of such dynamism. In fact, the economic buoyancy of these three giants is reshaping the tenets of contemporary discourse on global political economy.

China's economic growth in the past 20 years has been hovering around 8 percent annually, while India's growth picked up in the mid-1990s to 6.7 percent.² This growth performance has been sustained in the recent years. Between 1995 and 2000, average annual GDP growth in China and India has been around 10.2 percent and 6.5 percent, respectively. On the other hand, the GCC economies, having struggled to register impressive growth, are currently experiencing stellar economic performances, primarily facilitated by high oil revenues (see Figure 1 and Table 1).

The most important aspect of economic dynamism is aptly reflected in the quantum of external reserves of the three giants and their implications for the global economy.

The sheer volume of external reserves, accumulated from higher oil prices and consequent revenue flows in the GCC

1 As a portmanteau term for China and India considered together, this word has been around in the Western press since 2004, though it may have been used earlier in the Far East. The blend of the two names is intended to suggest that they are becoming a powerful economic force whose global influence may change the pattern of the world's trade over the next couple of decades. The term was in the news in January 2007 because of a new book by the US futurist and trendspotter Marian Salzman, *Next Now: Trends for the Future*.

2 *World Development Report*, 2005.



Table 1: GDP Growth Rates in Chindia and GCC (%)

	1995-2000	2001	2002	2003	2004	2005	2006*	2007**
China	10.2	8.3	9.1	10	10.1	9.9	9.5	9.1
India	6.7	5.8	3.8	8.5	7.5	8.3	8.5	9.0
GCC	4.9	3.6	2.7	8.7	5.4	6.2	6.1	5.6
Bahrain	4.3	4.6	5.2	7.2	5.4	6.2	6.1	5.6
Kuwait	1.9	0.6	-0.4	12.7	16.3	6.5	6.5	4.9
Oman	3.4	7.5	2.3	2	5.6	6.7	6.4	5.3
Qatar	11.8	4.5	7.3	5.9	8.7	7.6	7	7.4
Saudi Arabia	2.7	0.6	0.1	7.7	5.3	6.5	6	5.9
UAE	5.2	3.5	1.9	12.2	7.5	8	9.1	6.5

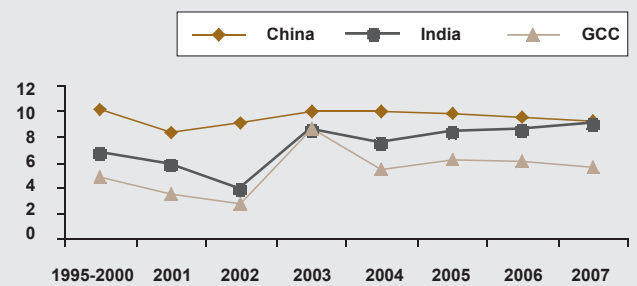
Note: * means estimated, ** means projected; Sources: Based on ESCWA, 2005-06, IMF, 2007, ADB 2006.

countries, manufacturing exports in China and services exports in India, has considerable influence on the current global financial imbalances. The coexistence of investible surplus and investment deficit in these countries points to huge unexploited potentials for broader economic engagement by the three giants in the coming years.

13 The linkage effects of economic growth are vividly manifest in the energy sectors of Chindia having implications for the GCC countries as well as the world energy market at large. While growth induced structural changes have precipitated phenomenal increase in energy consumption and imports, making these two countries the world's largest consumers and importers of oil and gas, the GCC countries have maintained their role as the world's traditional suppliers of energy.

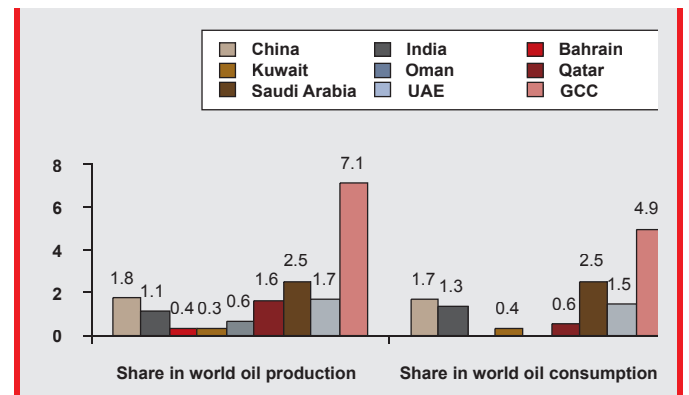
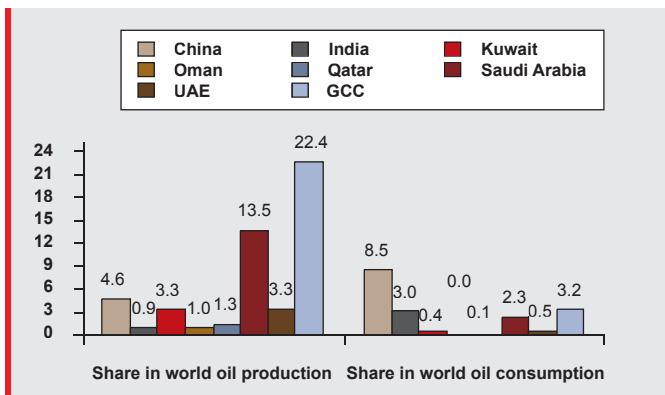
The gigantic reserves of oil and gas and the expected near-to medium-term market fundamentals aver a

Figure 1: GDP growth in China, India and GCC



more buoyant scenario for the GCC countries. Like the world economy, China, India and the GCC countries are also strategically positioned in the global energy matrix as major consumers and importers and major producers and exporters of oil and gas (see Figure 2 & 3).

Figures 2 & 3: China, India, and GCC's Share in World Oil and Gas Production and Consumption



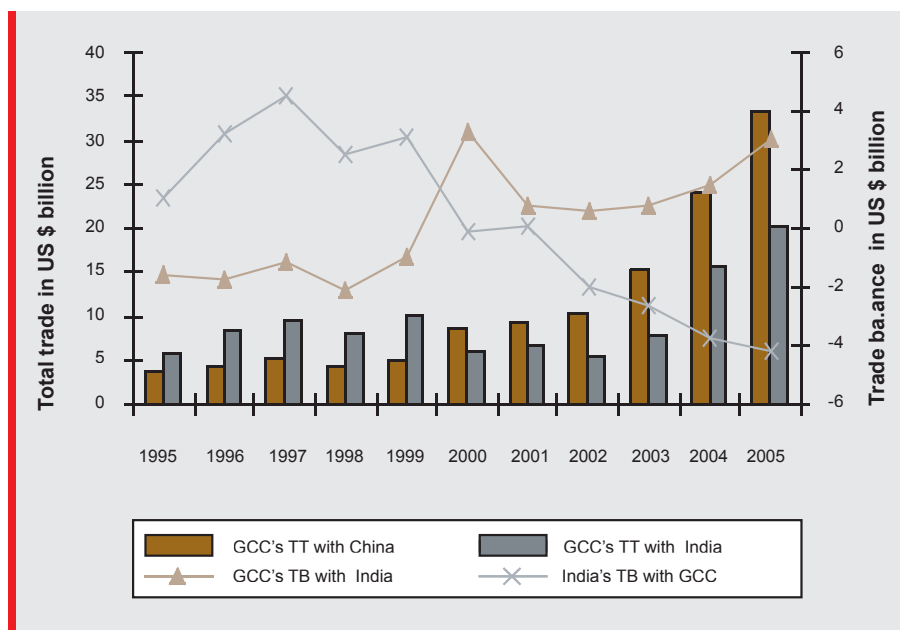
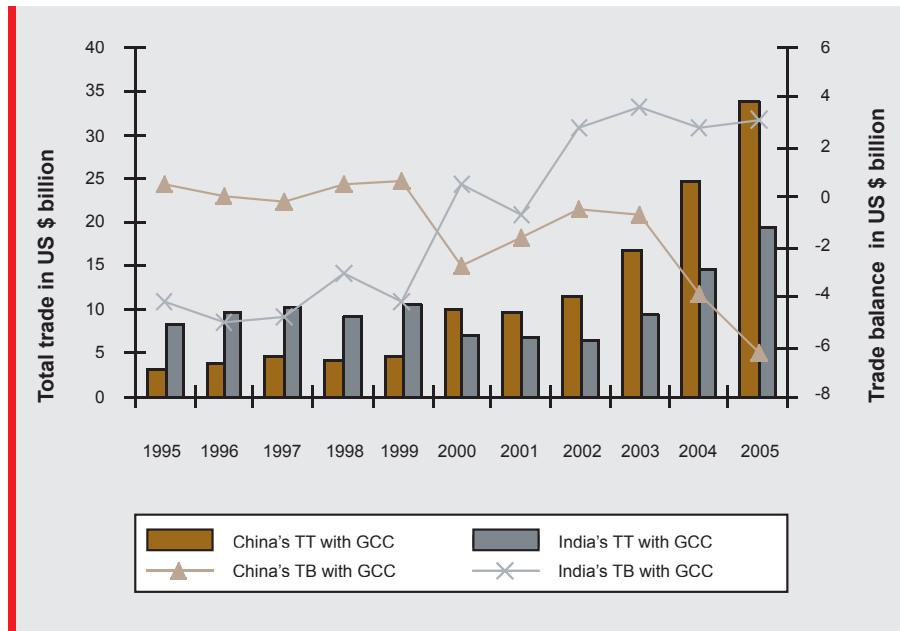
Source: BP Statistical Review of World Energy, 2006.

Chindia & GCC Trade Dynamism and Implications

Over the years, China and India have maintained a vibrant trading relationship with the GCC countries due to sheer geographical proximity and because of energy imports. The overall trade dynamism of China and India with the GCC countries has ascended to new heights in the recent past due to the rapid growth and increasing imports of oil and gas. Moreover, in India's case, this dynamism manifests in the

transition of economic engagement from 'energy-expatriate remittance nexus' to a more diversified broad-based pattern recently. In 2005, the two-way trade between India and the GCC touched \$20.4 billion mark, while China-GCC trade was \$33.4 billion. In fact, during 2000-05, trade between India and GCC increased by almost 30 percent annually, while that between China and GCC increased by 39 percent annually. During the same period, the annual average growth rate of trade between India and GCC was 1.8 percent, and between China and GCC, 2.3 percent.

Figures 3 & 4: Two-way Trade of India and China with GCC



Source: Calculated from IMF, DOTS Database, 2006.

As of 2006, India has a favorable trade balance with the GCC countries amounting to \$3.1 billion and China has a negative trade balance of nearly \$6.3 billion. From the GCC's perspective, it has a negative trade balance of \$4.2 billion vis-à-vis India and a favorable trade balance of \$3.1 billion with China (see Figures 3 & 4).

However, the relative importance of India, China and GCC in each other's recent world trade performance evinces mixed trends. As shown in Table 2, the GCC is an important destination for India's exports (accounting for 11.2 percent of India's total merchandise exports to the world and India accounted for more than six percent of the GCC's total merchandise imports from the world in 2005). However, from the GCC's perspective, India is not a major destination for their exports but China is an important destination for the GCC's exports and imports.

Thus, recent trends depict the emergence of vibrant trading relationships between Chindia and the GCC with multidimensional implications for regional economic engagement in Asia. Against these vibrant trading relationships, one would foresee a scenario of close broader economic integration centering on the more pervasive emerging energy paradigm.



Table 2: Relative Importance in Each Other's Trade Profile

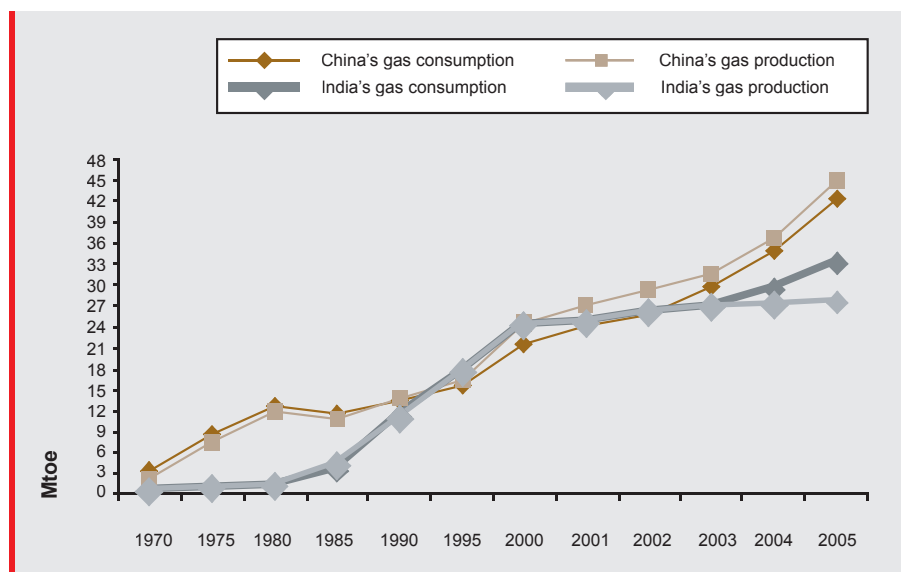
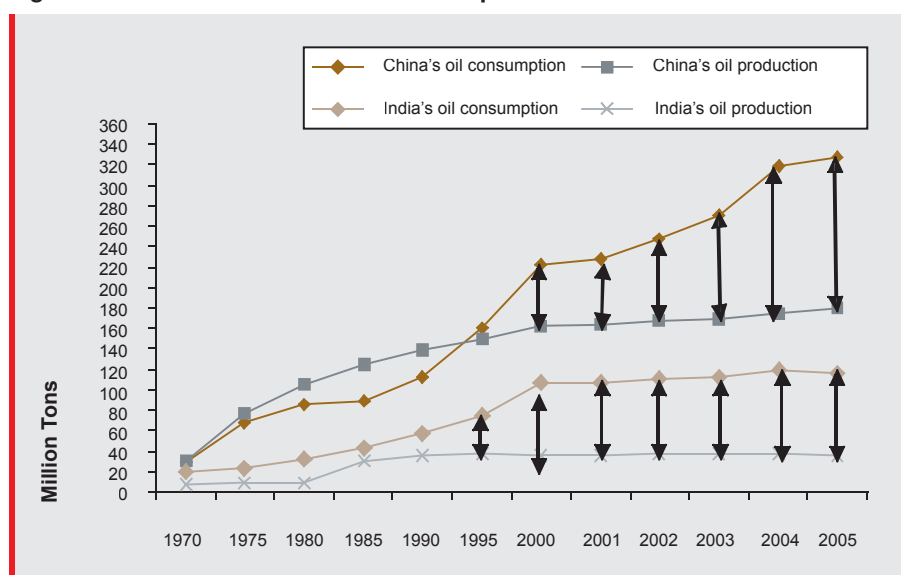
Relevance Indicators/Year	2000	2001	2002	2003	2004	2005
India's share in GCC's world exports	1.8	2.2	1.2	1.4	2.4	2.3
China's share in GCC's world exports	3.6	3.2	3.6	4.3	5.1	5.3
India's share in GCC's world imports	4.1	3.5	3.7	4.4	6.4	6.2
China's share in GCC's world imports	3.5	4.5	4.8	6.1	7.5	7.6
GCC's share in India's world exports	8.8	6.7	9.2	10.7	11.7	11.2
GCC's share in India's world imports	6.4	6.2	3.1	3.9	6.0	5.8
GCC's share in China's world exports	1.5	1.5	1.7	1.8	1.8	1.8
GCC's share in China's world imports	2.9	2.3	2.0	2.1	2.5	3.0

Chindia and GCC Energy Dynamics: Current Patterns and Outlook

Concurrent with the trends in world economic configurations, the global oil and gas regime has transformed over the years, pointing to the emergence of a demand heartland centering on Chindia in the Asian continent alongside the traditional supply periphery of the Middle East region. Both demand centers (Chindia) and supply sources (GCC) are strategically intertwined in the present regime and their survival and fortune crucially hinges on the emerging geopolitical and geoeconomic dimensions of energy market fundamentals. Having struggled to maintain their market share in the world oil regime in the past, the GCC in particular and OPEC in general are now clearly depending on the largest consuming and importing regions like Chindia. In turn, these vibrant economies also depend on energy imports from the GCC countries for sustaining and broadening their miracle growth trajectory.

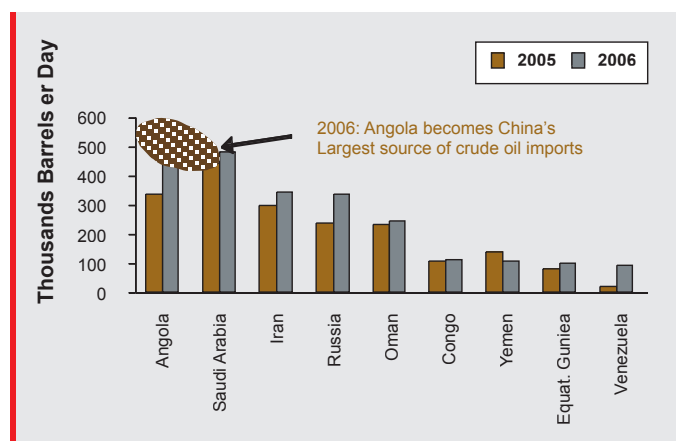
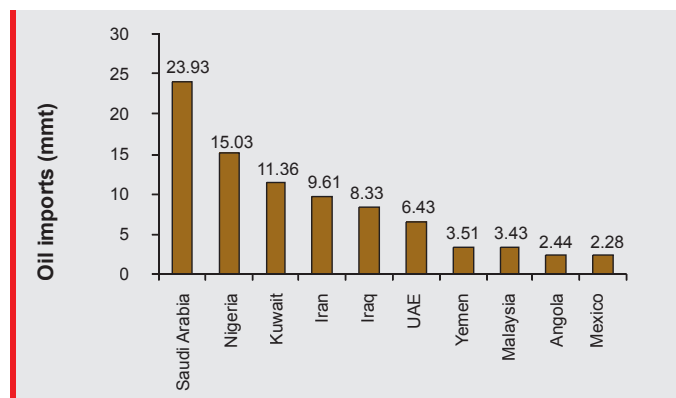
Beyond the necessity created by economic growth which continues

Figures 5 & 6: Chindia Domestic Consumption and Production of Oil & Gas



Source: BP Statistical Review of World Energy, 2006

Figures 7 & 8: Major Sources of China & India's Crude Oil Imports



Note: India's data is for year 2005 and 2006 data is from January to June only
 Sources: FACTS Inc., China Oil & Gas Monthly and Planning Commission, Government of India.

at exponential rates in Chindia, consumption of oil and gas has increased phenomenally in recent years. Poor resource endowments and declining production of oil have resulted in surmounting imports and consequent supply uncertainties having ripple effects not only in their respective economies, but also in the global oil and gas market (see Figures 5 & 6). Currently, Chindia accounts for 12 percent and 3.2 percent of total world oil and gas consumption respectively (Figures 2 & 3).

As per the estimates of IEA (2007), Chinese demand for oil is currently around 6.5 to 7 billion barrels a day and the Indian demand is 2.2 b/d. During this century, China's energy requirement is expected to grow by 150 percent – seven times faster than that of the US. In 2020, China will import half of the oil

that it consumes (11 million b/d, the amount that the US currently imports). China was a net exporter of oil until 1993. Since 1997 it has ventured abroad seeking energy, not only to acquire it on the market but also to produce it at controlled costs. In contrast, India has always had to import energy but it has begun to follow the path of foreign direct supplying (participation in the exploration and development of oilfields). Both are also strategizing for diversification of import sources, though future trends point to increasing dependence on the GCC. Figures 7 & 8 depicts major sources of crude oil imports of China and India. As evident the GCC countries along with their Middle Eastern neighbors are the major source of India's crude oil imports. In fact, in 2005, they accounted for an overwhelming 67 percent of India's total oil imports, nearly 24 million metric tons from Saudi Arabia alone. However, Chinese direction of oil imports is somehow diversified in comparison to India. Though the GCC region still is a major source of China's oil imports, in 2006, Angola became the prime supplier.

Since the Second Oil Crisis, the OPEC³ in general and GCC in particular has lost their market share (especially those of North America and Europe) considerably, primarily on account of three major factors: the past faulty policies of maximizing oil revenue at any cost to maintain domestic financial profligacy; crisis-ridden attempts by major consuming regions towards conservation, advanced technology and production in other regions at competitive cost, making a switch away from Gulf oil, and the vicissitudes of the transition of the world oil regimes over the years. There are secular trends of continuous decline in OPEC oil exports to the Western European market and somewhat modest decline in exports to US (see Figure 9). However, the share of Asia Pacific in OPEC's total oil exports has increased considerably since 1970 and the region is now the major destination for OPEC's oil exports. Moreover, for the GCC members of OPEC (OPECGCC), Asia-Pacific is crucial to sustain their flow of revenues from oil exports – the lifeblood of these economies. In recent years (2000s), oil exports from OPECGCC to the Asia Pacific region in general and Chindia in particular, has increased considerably from nearly 6 million b/d per day in 2001 to more than 8 million b/d, indicating an increase of 35 percent (see Figure 10).

3 From the GCC, Bahrain and Oman are not members of OPEC.



In addition, all recent forecasts⁴ predict the continuation of the above observed trends of OPECGCC oil exports to the Asia Pacific in general and Chindia in particular in the near to the medium term. In fact, it is expected that despite attempts at diversifying oil imports from the Gulf region, Chindia's import dependency on the region is likely to swell to 60 percent and 90 percent respectively by 2020 on the sheer quantum of projected growth in consumption in these two countries.

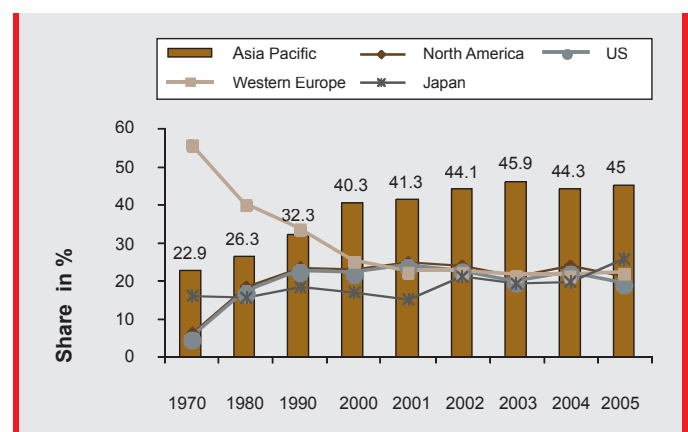
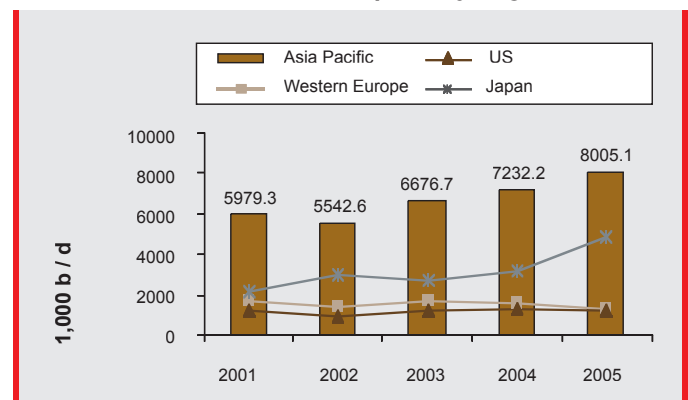
Thus, as evident from the trends enunciated above, the emerging pattern of energy-economic interdependence makes a robust case for broad-based engagement among Chindia and the GCC countries, which is crucial not only for their energy security but also for regional and global energy security at large. Such an engagement could have several multidimensional implications for regional economic confabulations clearly evident in the recent ongoing and proposed attempts of broad-based partnership building not only in the energy sector but also across sectors in their respective economies, which may as well serve as the link for regional integration by igniting the 'east-east solidarity' in the broader Asian context, which could have strategic connotations for the global political economy.

Chindia and GCC: Pattern of Regional Integration and Constraints

With the gradual pace of multilateralism, open regionalism⁵ is gaining strength day by day across regions, albeit slowly in the Asian context. At present, Chindia are in the vanguard of this phenomenon, not only to showcase their economic strength and global competitive advantage, but, importantly to consolidate and propagate their strength by aligning with other countries and regions through win-win formulations. The increasing number of bilateral and regional preferential trading arrangements signed and proposed by Chindia⁶ and other Asian countries have cre-

ated an enabling environment for regional integration in the broader Asian context. In such an environment, the perennial quest for energy security and the indelible importance of the GCC in that perspective have compelled Chindia to orient strategies for economic integration.⁷ In a sense it can be argued that energy is the primordial factor for such attempts of integration between Chindia and the GCC region.⁸ Simultaneously, for the GCC region, Chindia is not only where opportunities abound, but also, fodder for survival in the intensely competitive globalized energy and economic scenario. The restrictive attitude of the West

Figures 9 & 10: Share of OPEC Total Oil Exports by Region and Trends of OPECGCC Oil Exports by Region



Source: OPEC Annual Statistical Bulletin, 2005

4 Apart from projections by IEA, EIA and OPEC, official projections on import dependence by Chindia governments also substantiate such dependence.
 5 Regional economic integration that is not discriminatory against outside countries; typically, a group of countries that agrees to reduce trade barriers on an MFN basis. "Open regionalism" represents an effort to resolve one of the central problems of contemporary trade policy: how to achieve compatibility between the explosion of regional trading arrangements around the world and the global trading system as embodied in the World Trade Organization. The concept seeks to assure that regional agreements will in practice be building blocks for further global liberalization rather than stumbling blocks that deter such progress. For details, see Bergsten, C. Fred, "Open Regionalism" (Working Paper No. 97-3, Peterson Institute, 1997).
 6 For a detailed appraisal of such arrangements, browse captions in WTO website and UNESCAP website.
 7 The proposed bilateral FTA negotiations with GCC by India and GCC are a case in point. Moreover, there are renewed efforts in Asia for broadening regional integration to the GCC region.
 8 In recent years, Chindia and GCC countries have clinched numerous collaborative ventures pertaining to the oil and gas sector. Outlining of such ventures is beyond the scope of the paper. For those interested, details are available on the Internet.

in the aftermath of 9/11 considerably dented the operation of the GCC economies and made them look towards the eastern power houses in their immediate neighborhood. Consequently, the oil-rich GCC community channeled its investment and resources to these emerging market economies and is now more than eager to cash in on the economic buoyancy of Chindia. On a very optimistic note, such configurations envisage the feasibility of regional economic integration gaining shape day by day. It is also likely to sustain in the future.

However, energy issues themselves portend to amplify either cooperation or competition, crucial to regional economic integration between Chindia and GCC in the coming future. The final outcome remains open-ended, although there are certain factors having implications for regional integration that may determine the future configurations: (i) the dominant presence of US in the region, (ii) reoriented Japanese strategy in the region, (iii) compatibility of strategies by Chindia in the region, (iv) GCC's continued bonhomie with the western world, and (v) emerging oil market fundamentals.

Conclusions and Implications

Energy interdependence between Chindia and the GCC is decisively influencing economic engagement which has potential for regional economic integration. Simultaneously, energy related links may also amplify cooperation as well as competition in the near future, if the countries orient negative sum strategies in order to excel in the competitive arena. The situation is currently in flux with ambiguous connotations for regional integration in the broader Asian context for synergizing 'east-east identity.' This calls for calibrated win-win strategies in the framework of 'cooperative-competition' for collective benefit and prosperity. To sum up, it can be asserted that, 'interdependence has remained a key vector of rivalry or cooperation in transnational relations. Institutions created in response to various challenges posed by energy-economy interdependence will have to evolve by adapting their (Chindia as an emerging consumer and GCC countries as suppliers) functions and operations to the changing realities if they are to collaborate and prosper. The essence of sustained cooperation is, therefore, adaptability.'

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Forthcoming Publication:

Gulf Geo-Economics

Edited by Dr. Eckart Woertz



The integration of the Gulf Cooperation Council (GCC) countries into the world economy is increasingly multifaceted. Although oil and gas revenues are still of paramount importance, the GCC countries have developed a diversified economic structure with new sectors emerging in the fields of petrochemicals, heavy industries and services. Apart from new import requirements for these industries, the focus of the GCC's trading relations has moved eastwards. The US only accounts for 10 percent of imports nowadays while the European Union and Asia each roughly contribute one third of overall imports. Furthermore, Asia purchases about two-thirds of GCC energy exports. This has naturally raised questions about potential political realignments although Asia still lags far behind Western markets in terms of cross border investments.

Tokyo's Energy Strategy in the Gulf Region after Azadegan

It would be fair to describe the collapse of the Japan-Iran partnership over the Azadegan oil field in October 2006 as the end of one era in Japan's involvement in the Gulf region and the beginning of another. Although the Japanese oil company Inpex continues to maintain a 10 percent stake in the Azadegan project, there is no longer any regional oil development project that gives Japan a major base in the Gulf as the Arabian Oil Company's Khafji concession once provided for decades, and which Azadegan was expected to provide. This essay will examine where Japan's Gulf energy strategy stands today, in the post-Azadegan era.

The Three Blocks

There are now three major political blocks that Japan must contend with in shaping its Gulf strategy: Iraq, Iran, and the Gulf Cooperation Council (GCC) states.

Throughout the 1950s and until the 1970s, Tokyo was able to manage its relations with all the Gulf countries without great difficulty. Security was broadly provided by the United States Navy, and Japan was able to quietly and unobtrusively purchase the oil resources that it needed directly from each of its partner countries. Gulf-Japan relations were unencumbered by any past colonial history, and Japan became a convenient and valued customer for most of the Gulf states without distinction. The OPEC oil embargo, the Iran-Iraq War, and the Gulf War of 1991 added new political and military complexities to the Japan-Gulf relationship, but the Japanese still managed to muddle through and receive the energy supplies they needed.

The Strategy Disrupted: Iraq and Iran

Today, however, Japan's comprehensive political position in the Gulf is perhaps as weak as it has ever been. In both Iraq and Iran, Tokyo's 21st century energy strategies have floundered.

Japan has maintained a quiet but sustained interest in developing some of Iraq's oilfields ever since it first

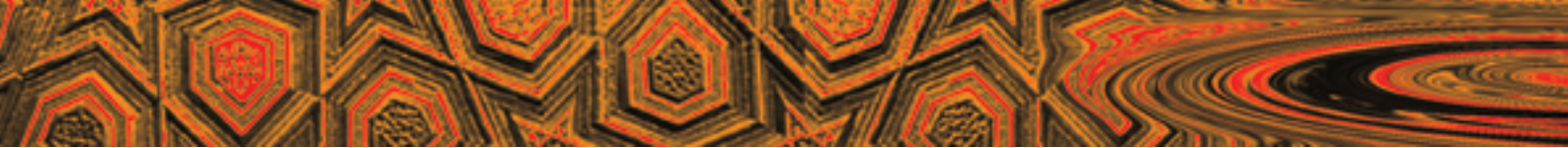
became apparent in 2002 that the United States was determined to invade the country and topple the Saddam Hussain dictatorship. This was not by any stretch the (Junichiro) Koizumi administration's primary reason for supporting the American invasion, but there is some evidence to suggest that the anticipated postwar struggle for oil concessions contributed – at least marginally – to Tokyo's initial enthusiasm for the Washington line on invading Iraq.

In the first years after March 2003, Japanese leaders fully expected that Washington would become the gatekeeper to Iraq's rich energy resources, and that Japan would be likely to benefit by maintaining strict loyalty to Bush administration policies. There is little doubt that many American leaders saw the issue through a very similar lens. Of course, the insurgency and later civil war in Iraq progressively unraveled these ambitions, and as American policy in Iraq sank deeper and deeper into misfortune, so has that of their Japanese allies – but to a somewhat lesser extent.

Nevertheless, Tokyo has become increasingly open about their interest in developing oil fields in the Iraqi south. Two Japanese oil companies, Japex and the Arabian Oil Company, signed technical support agreements with the Iraqi Oil Ministry in 2005. When Iraqi Oil Minister Husain Al-Shahristani visited Tokyo in November 2006, he told reporters



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that Japanese oil companies were expressing interest in the huge Nasiriya oil field. Finally, since around mid-2006 the Japanese government has indicated that much of its new financial aid to Iraq will be in the oil sector. As one official of the Japanese Ministry of Economy, Trade, and Industry put it: “Strengthening the relationship with Iraq would bring immeasurable benefits to Japan, which has few natural resources.”¹

It is clear that Tokyo wishes to lay a strong foundation for its anticipated future business relationships in southern Iraq, but it is not likely that this policy will bear fruit anytime soon. Political chaos in Iraq overshadows the modest Japanese efforts there, and it is still far from clear what kind of nation (or nations) will eventually emerge from the Iraqi civil war.

For the time being, however, it is fair to say that Japan’s strategy in Iraq is completely at the mercy of political and military developments over which they have no control and very little influence. Effectively, therefore, it is really no strategy at all – just wishful thinking.

Tokyo has had much more choice in its approach to Iran, but after a long struggle it opted for solidarity with Washington over its “special relationship” with Tehran. The story of Azadegan has already been told, but the salient point is that the Abe administration gave up its major stake in that project in order to remove an obstacle to closer US-Japan relations. The nuclear crisis over North Korea refocused the attention of many Japanese leaders on the security of their own island nation, and many of them felt that the Azadegan development needed to be sacrificed in order to ensure American goodwill. Further, Tokyo was much more comfortable dealing with former president Mohammad Khatami than with the more demagogic and polarizing figure of President Mahmoud Ahmadinejad, whose rhetorical outbursts and uncompromising political stand served to undermine Japanese faith in their Iranian partners.²

Japan has also invested in strengthening its bilateral links with all the GCC countries individually. Much can be written about the relationship with all six countries, but Qatar and Saudi Arabia stand out among them

Even after Azadegan, it appears that both Tokyo and Tehran wish to maintain some degree of mutual friendship. Although it is no longer the operator, Inpex still maintains a 10 percent stake in the Azadegan development, which could potentially be augmented in the future if the political issues are resolved. Also, Iran remains Japan’s number three supplier of oil, accounting for more than 13 percent of Japan’s oil imports as of 2006. Cultural exchanges between the two countries remain strong too.

Nevertheless, as in Iraq, the future of Tokyo’s strategy in Iran remains largely out of their own hands. Japanese leaders have signaled that they are prepared to accept any sanctions or other measures adopted by the UN Security Council in regard to the Iranian nuclear program and its suspected military aspects. Since Japan wields no veto power at the UN and is not even a member of the 5+1 Group conducting the main negotiations with Tehran, essentially they are on the outside looking in, with no decisive role to play. Like the case of Iraq, Japan’s position in Iran is fragile and subject to future events that they cannot control.

The Strategy that Remains: The GCC

In contrast to the obvious vulnerabilities of the Japanese strategies in Iraq and Iran stands the Japanese relationship with the six nations of the GCC. Here is the arena in which Tokyo is not yet bedeviled by civil wars or the curtailing effects of the US-Japan alliance.

The GCC states have remained politically stable for many years and, like Japan, are broadly under the wings of America’s global security architecture. Thus, the only current impediments to the development of the Ja-

pan-GCC relationship are coming from the choices that are made (or not made) by the parties themselves.

Tokyo understands the need to tighten its links with the GCC in order to partially compensate for its failures or vulnerabilities in Iraq and Iran. One clear dimension

¹ This quote originally derives from a Yomiuri Shinbun article, but is also available online in Michael Penn, “Foreign Minister Aso in Baghdad as Tokyo Eyes Iraqi Oil,” Shingetsu Newsletter No. 352, August 5, 2006.2

² For a detailed discussion, see Michael Penn, “Oil and Power: The Rise and Fall of the Japan-Iran Partnership in Azadegan,” *Japan Focus*, no. 708, December 2006.



of this effort is the new degree of priority that the Abe administration has put on bringing Japan-GCC FTA negotiations to a speedy and successful close.

However, Japan has also invested in strengthening its bilateral links with all the GCC countries individually. Much can be written about the relationship with all six countries, but Qatar and Saudi Arabia stand out among them.

Japan's comprehensive political position in the Gulf is perhaps as weak as it has ever been. In both Iraq and Iran, Tokyo's 21st century energy strategies have floundered

The crucial point about Qatar is that this tiny country has emerged as a giant for Japan's LNG needs. Japan was an early investor in Qatar's LNG sector, and this has earned the East Asian country a harvest of goodwill. As Qatargas Chairman and CEO Faisal Al-Suwaidi told an interviewer recently: "Qatar will always remember with gratitude Japanese customers led by Chubu Electric who had actually put the state's LNG industry on the global map... When Japan decided to buy LNG from us, many skeptics thought the Japanese buyers were committing a mistake. That was a period of regional skirmishes. But Japanese customers stood their ground."³

When the Japanese business world was recently shaken by revelations that the Indonesian LNG industry was faltering and unlikely to be able to meet the future needs of Japan, it was Qatari Minister of Energy and Industry Abdullah Bin Hamad Al-Attiyah who rushed to Tokyo for an extended visit in November 2006 promising secure and stable supplies of LNG. This resulted in a palpable sigh or relief among Japanese policymakers.⁴

Although not quite as dramatic as the case of Qatar, the Japan-Saudi Arabia connection is also thriving. For 20 years, from 1985 to 2005, the UAE was the leading exporter of oil to Japan. However, in the past couple of years Saudi Arabia has re-emerged as their main source, now accounting for about 29 percent of Japan's oil imports.

As if this were not enough, there is also the giant Aramco-Sumitomo Chemical partnership in the Rabigh

Refining and Petrochemical Company on the Red Sea coast. At last word, the cost of the project was estimated at a whopping \$9.8 billion, and is thus the largest such petrochemical facility in the GCC states that Japan is involved with. The only past analogy would be to Mitsui's ill-fated Iran-Japan Petrochemical Company (IJPC) project in the 1970s and 1980s.

But the Rabigh project is but the largest of many investments that Japanese companies have lately been making in the GCC

states. The pace of these business deals appears to be accelerating, and presumably a Japan-GCC FTA would increase the pace even further.

Overview

In conclusion, the overall picture of Japan's current energy strategy is mixed. Tokyo's aims in both Iraq and Iran have been frustrated. The collapse of the Saddam Hussain regime in Baghdad did not produce the windfall of lucrative oil contracts that some had been predicting. Contrary to Japanese expectations, the US policies in Iraq failed miserably, and it is still unclear what will eventually emerge there.

In Iran, Tokyo exercised its own choice – under strong American pressure – to withdraw from its main partnership agreement. This may or may not prove to be a major setback for Japan-Iran relations, but it has certainly introduced new strains and fragility into a relationship that used to be regarded as being rather strong. Since Tokyo will follow the UN line on Iran, the future of the bilateral link is now effectively controlled by others.

As a result of the above, Japan has rediscovered the importance of its links with the GCC countries, and most of the progress that Japan is achieving in the Gulf is limited to that block alone. One may thus surmise that Tokyo's position in the Gulf has – in some ways – never been so vulnerable, and the GCC's leverage has never been higher.

³ John Pratap, "Qatar to Meet Chunk of Global Gas Demand," Gulf Times, February 11, 2007.

⁴ A good summary is provided by Masaki Hisane, "Qatar, Japan's Energy White Knight," Asia Times Online, December 5, 2006.

Japan's Foreign Policy toward Iraq after 2003: Perceptions in Iraq and the Arab World



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The collapse of the Saddam regime in Iraq triggered the beginning of a new era in Japan-Iraq relations. Although the two countries enjoyed close economic ties, especially in the 1970s, the United Nations sanctions on Iraq after the Gulf War in 1991 strained the political and economic relationships between them. However, since 2003, Japan has vigorously promoted a range of official assistance for the reconstruction of Iraq, including the dispatch of Japan's Self-Defence Force (SDF) to the southern Iraq city, Samawah, which has been controversial both in Samawah and some Arab countries.

Japan's Official Assistance for the Reconstruction of Iraq

At the Madrid Donor Conference in October 2003, Japan announced a contribution of \$5 billion (\$1.5 billion as grant assistance and \$3.5 billion as yen loans) as Official Development Assistance (ODA) for Iraq. This was the largest contribution announced at the conference, apart from that of the United States. The Japanese government explained the significance of the assistance given to Iraq from three perspectives: (1) the development of Iraq as a peaceful and democratic state is important for the peace and stability, not only of the Middle East but also of the international community as a whole; (2) Japan obtains nearly 90 percent of its oil from the Middle East, including

Iraq; and (3) the reconstruction of Iraq is an important aspect of the ongoing peace-building effort, which is considered a top priority issue in Japan's ODA.

Japan has already implemented the plan for reconstruction, and almost all of the \$1.5 billion grant assistance has been transferred either directly to Iraq or through international agencies, international reconstruction funds, or non-government organizations. This is notable when compared with European or Arab countries, which have delayed their reconstruction plans till the security conditions improve in Iraq.

However, the Japanese reconstruction plan has not proceeded as planned because of the deterioration in the security situation, the spread of corruption, and the dysfunctional state of ministries. These issues have hampered the expansion of the economic relationship and official assistance to the private sector. Japan's exports to Iraq in 2003 amounted to 14.6 billion yen. This was less than half of the export bill in 2002, when Iraq was under UN economic sanctions. Although neighboring countries, such as Iran and Turkey, have begun active trade exchanges with Iraq, security will remain the key in the future expansion of economic ties between Japan and Iraq.

Self-Defense Force in Samawah

In 2003, Japan decided to deploy the SDF to Samawah in southern Iraq, for the first time outside the framework of UN peacekeeping operations. This deployment was aimed at providing humanitarian assistance. However, the move became controversial, partly because of the unrealistic and high expectations of the Samawah inhabitants, and partly because of Arab countries' perception that this project involved cooperating with the "occupying forces."

The 600-member SDF contingent was deployed in Samawah city in Muthanna province for two and half years

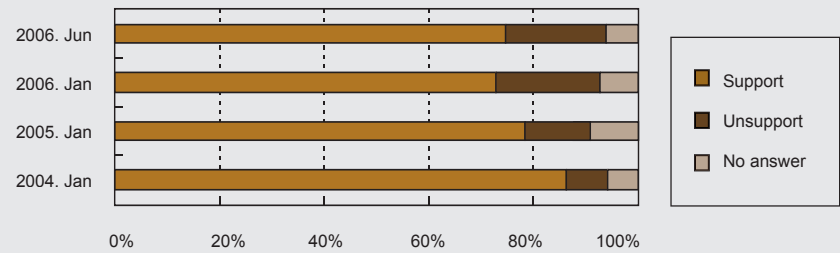


from February 2004 through July 2006 and was engaged in providing humanitarian assistance, such as distribution of drinking water, medical assistance, and rehabilitation and maintenance of public facilities. These activities received a positive reception from the residents of Samawah. According to public opinion surveys, conducted four times between 2004 and 2006 by Kyodo News of Japan and Al-Samawah newspaper in Iraq, the SDF obtained around 70–80 percent support through the research period, and more or less the same number of respondents said that the SDF helped Samawah to be prosperous.

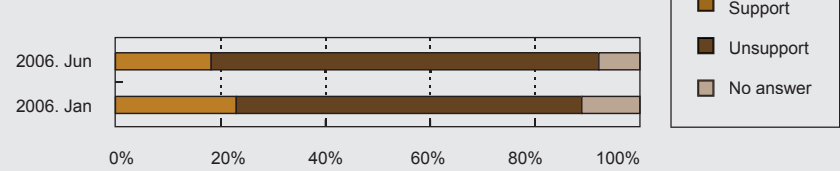
The people in Samawah, which had a high unemployment rate and no significant industries, were under the impression that the SDF would create employment, attract many Japanese private companies, and renovate all the devastated infrastructure – rather like Aladdin’s lamp. In reality, the mission of the SDF was confined to small-sized reconstruction activities and did not bring any Japanese company into the area. Taking into account these high expectations, the strong support that the SDF was able to maintain until its withdrawal can be interpreted as an indication that its humanitarian efforts had a positive impact on the local society.

However, this high level of support must also be regarded as being partly because of the Japanese government’s decision to build a large-scale power plant in Samawah by way of grant assistance in March 2006. Power supply was one of the top priorities there, and among those who answered that they were

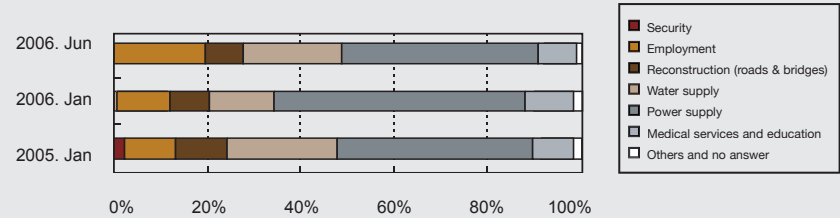
Q1: Do/Did you support deployment of Japan’s SDF?



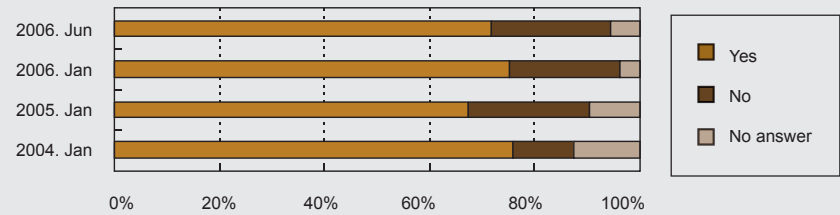
Q2: Do you support the withdrawal of the SDF?



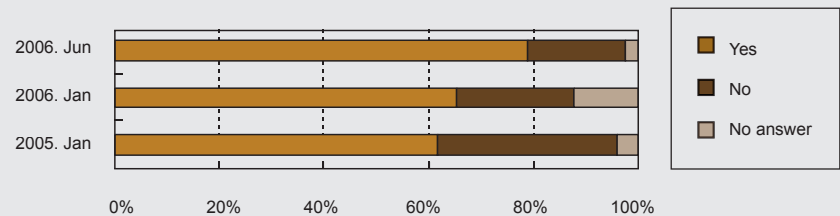
Q3: What did/do you expect from the SDF?

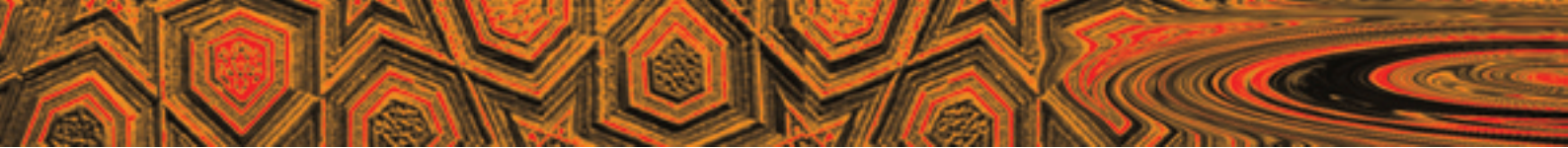


Q4: Do you think that the SDF helps/helped Samawah to be prosperous?



Q5: Are you satisfied with humanitarian activities of the SDF?





“not satisfied with the humanitarian activities of the SDF” (about 20–30 percent of the total), the top reason given by 40 percent of those indicating that they were not satisfied was that the “activity size is too small.”

The proportion of respondents who supported the withdrawal of the SDF was about 20 percent. Some of those were supporters of radical Shiite cleric, Moqtada al-Sadr, who regards all multinational forces as occupying forces, without drawing any distinction between them; and the others were perhaps those who did not have a chance to reap the benefit of SDF activities.

Although the kind of operations the SDF was undertaking in that small city was not exactly known among Iraqi politicians, the fact that Japan assisted in the reconstruction of Iraq in difficult situations, through ODA and deployment of the SDF, was widely known and appreciated.

Arab View of SDF Deployment

Deployment of the SDF was widely featured in the Arab media and regarded negatively among Arab intellectuals in most cases. Some said that sending troops would damage Japan’s historically positive image in the Middle East, and others said that Japan would be forced to send

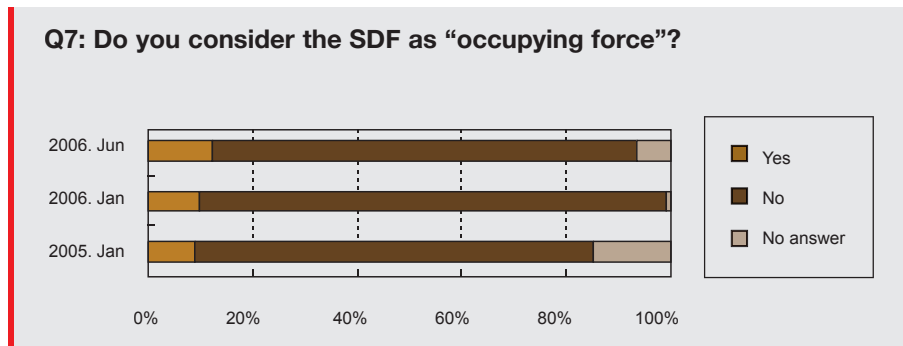
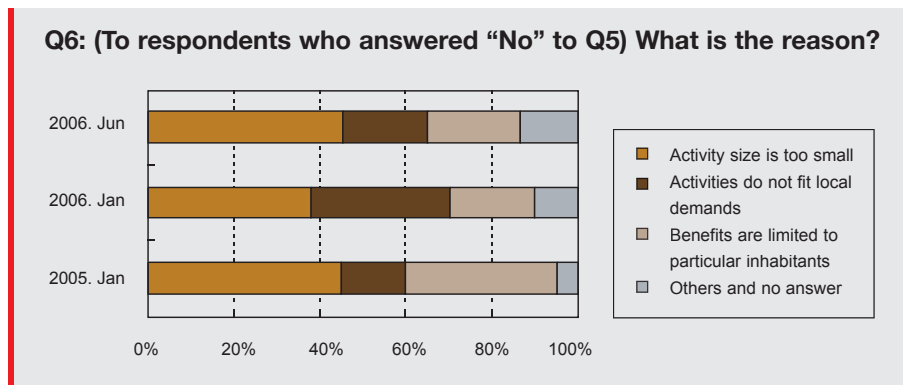
troops because of pressure exerted by the US. Although the Japanese government explained the legal aspect of deployment based on UN Security Council Resolution 1483, in the Arab world, where anti-American feelings were mounting, the political reality gave rise to the perception that it was only the US allies that sent troops. As a result, Japan’s decision to dispatch the SDF was understood as being assistance to the US rather than to Iraq.

Above all, the army is often perceived as being directly connected to combat operations in the Middle East and the concept of “peaceful utilization of the army,” in the field of reconstruction or peace building, is quite unfamiliar in the region. This issue may partially explain the negative perceptions of the SDF.

Future Relationship

On an official basis, regime change in Iraq has improved the political relationship between Japan and Iraq. However, we must bear in mind that Iraq is increasingly likely to become polarized politically and this may lead to diversified views toward Japan.

In addition, it cannot be denied that dispatching the SDF to Iraq had a negative effect on Japan’s image in the Arab world. However, Japan is now expanding the SDF’s overseas missions, and as is the case in Iraq, where the activities were welcomed and contributed to local society development, dispatch of the SDF does not necessarily have to be a source of tension between Japan and Arab countries.



Source: Kyodo News

Iran in China's Strategic Calculus

China and Iran remain important geopolitical partners. The relatively recent growth in both countries' power and influence presents a distinct challenge to the United States's regional and global preponderance. The ties between the two are complex. It draws upon deep historical bonds, economic necessity and political will to establish a multi-polar political order. Yet, this partnership does not represent an alliance; it is a constellation of mutual interests.

Emerging from decades of international isolation and keen to reverse the 'century of humiliation,' China is seeking a greater regional and global role that reflects its size and aspirations. Beijing has been for a long time what historian John Gittings calls a "status-quo power that often punches below its weight in international politics." Both China and Iran share similar historical experiences, springing from the fall of great dynasties, which have shaped their contemporary outlook and concerns – namely, a fear of foreign powers seeking to deny them their 'rightful' place in the world. Various Chinese and Iranian leaders have long held that the existing world order dominated by Western powers is profoundly unjust, steering their mutual preoccupations with independence and sovereignty.¹

Moreover, China is also seeking to gain a foothold in a region that increasingly resents the US presence. In doing so, China hopes to subtly challenge American power in the Middle East (as well as in Africa and Latin America) through diplomacy, increased people-to-people ties and expanded business networks, thereby complementing and projecting China's global ambitions. Equally, China enjoys an advantage of not carrying any colonial baggage. Through its deft application of soft power, apparent non-interference in the affairs of other states, and a willingness to do business with countries

Western states seek to isolate (e.g. North Korea and Zimbabwe), China has become an attractive partner for an increasingly-maligned Iran.

Nevertheless, meeting the needs of China's power-hungry and rapidly growing economy, and maintaining sound ties with its largest trading partner (and economic guarantor) – the United States – remains Beijing's priority. China also faces US pressure to act as a 'responsible stakeholder'² in global affairs. China's vote against Iran (and North Korea) in the UN Security Council, and its quietism over the Iraq war, are all manifestations of Beijing's reluctance to isolate itself in the face of unified international opinion. Equally, Beijing recognizes that stability at home is contingent upon economic growth and development, which are associated with rising energy demands.

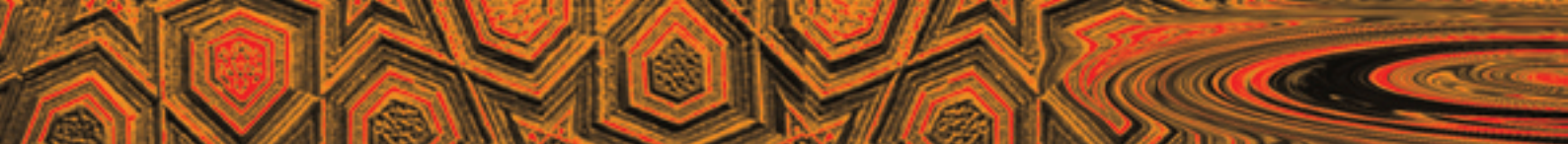
China's Surge

China's meteoric rise has seen its economy average 10 percent growth per annum over the past 15 years. In 2006, China consumed seven million barrels of oil per day (mbpd), about one-third of the US level of 20.8 mbpd. This is set to increase by 1 mbpd annually. The International Energy Agency (IEA) predicts that by 2030, Chinese oil imports will equal that of the US. Before that, by 2015, 65 percent of China's energy needs will be met by foreign sources, and by 2030, up to 80 percent, making it necessary for China to secure a stable and diverse supply of oil.³ Currently, 61 percent of its oil imports come from the wider Middle East.⁴



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1 See John Garver, *China and Iran: Ancient Partners in a Post-Imperial World* (University of Washington Press, 2006), 16.
2 www.state.gov/r/pa/prs/ps/2005/57822.htm
3 http://www.thestandard.com.hk/news_detail.asp?pp_cat=22&art_id=41493&sid=12981130&con_type=1
4 http://www.atimes.com/atimes/China_Business/IB28Cb02.html



Highlighting China's growing addiction to oil, China's National Development and Reform Commission estimates that by 2010, oil will account for between 51.4 percent and 52.6 percent of China's energy needs, up from 29.1 percent in 2000. China's gas consumption is rising at an even faster pace, with imports projected to increase from zero in 2000 to 20-25 million cubic meters by 2010.

Indeed, this rapid demand is causing problems at home. Events in China's vibrant Guangdong and Yunnan provinces provide a portent to the Chinese leadership. Increased energy demands have caused oil supply shortages and inflation, with over 128 gas stations closed in Shenzhen City alone last August. Moreover car ownership is set to reach 130 million by 2020 placing an additional burden.⁵

Energy Ties

As a result of this surge in demand, China has been expanding its energy partnerships. Iran now represents an important pillar in China's energy security. Tehran was Beijing's third largest oil supplier in 2005, providing some 14 percent of Chinese oil imports. With the spate of recent signings, discussed below, Iran is one of China's largest oil suppliers.⁶ This crystallizes Tehran's goal, laid out by Iran's former oil minister Bijan Namdar Zanganeh in 2004 when he stated "Japan is our number one energy importer due to historical reasons... but we would like to give preference to exports to China."⁷

Iran's attractiveness to China is not surprising. According to the Oil and Gas Journal, Iran's proven oil reserves stand at 125.8 billion barrels, roughly 10 percent of the world's total. Iran also has an estimated 940 trillion cubic feet of gas, or around 16 percent of total world reserves, equivalent to about 155 billion barrels of oil.⁸ Moreover, the absence of US and European competition, due to US sanctions barring investment in Iran, has given Chinese and Russian companies a distinct advantage over their counterparts.

Since the 1990s, Chinese companies have been involved

in the development of oil fields in the Caspian Sea and the construction of a pipeline from Neka on Iran's southern coast of the Caspian Sea to refineries in Tehran and Tabriz in the North West. Iran has also given priority to Chinese firms to assist it in developing its deep-sea technology for future drilling in the Caspian.

More recently, China and Iran have announced a series of spectacular deals, potentially exceeding a staggering \$200 billion.

The Sinopec Group of China has been asked by Iran to prepare a master plan for the development of the country's energy resources, including exploration and drilling, as well as development of the petrochemical and gas industries.⁹

In October 2004, Sinopec and Iran signed a contract for an estimated \$100 billion for 250 million tons of LNG and 150,000 bpd of crude oil over a 25-year period in one of the largest energy deals ever. The agreement also gives Sinopec a 51 percent stake in the Yadavaran oil field near the border with Iraq.¹⁰

Again in 2004, China's state oil company Zhuhai Zhenrong agreed to buy over 110 million tons of LNG worth \$20 billion from Iran over a 25-year period. Zhenrong is also currently receiving 303,000 barrels per day of crude from Iran under a 10-year deal. At the same time, both countries announced a joint tanker venture for the transport of LNG to China for an undisclosed amount.

More recently, in July 2006, Beijing and Tehran signed a \$2.8 billion contract to expand a refinery at Arak.

In December 2006, China's National Offshore Oil Corporation (CNOOC) signed a \$6 billion deal to develop Iran's giant North Pars gas field and build plants to liquefy the natural gas. The project will take eight years to complete and CNOOC will receive 50 percent of the gas produced. With the field's oil reserves estimated at about 17 billion barrels, China's operation could be worth more than \$100 billion.

5 <http://www.msnbc.msn.com/id/12801549/>

6 <http://www.gasandoil.com/goc/news/nts71369.htm>

7 http://www.chinadaily.com.cn/english/doc/2004-11/09/content_390435.htm

8 <http://www.commondreams.org/views05/0411-21.htm>

9 <http://www.energybulletin.net/34111.html>

10 <http://www.iht.com/articles/2006/11/26/business/sinopec.php>



The latest energy deal came at the end of March this year, with China's biggest energy firm, the China National Petroleum Corporation (CNPC) agreeing to double its investment in one of Iran's most prominent energy fields. Under the new deal, CNPC will spend \$150 million to upgrade Iran's Masjed-i-Suleiman field. Once complete, the project is expected to yield some 25,000 bpd for China.¹¹

Iran and China also have plans to construct a 386 kilometer-long pipeline to take Iranian oil to the Caspian Sea, enabling linkages to another Chinese-Kazakhstan pipeline now under construction. At the same time, China is building terminals at Guangdong, Shanghai and Fujian to receive oil imports, part of what has been called the String of Pearls effect.¹²

These investments are very welcome in Iran. Ali Akbar Saheli, Iran's former representative to the International Atomic Energy Agency (IAEA), said that the two countries "mutually complement each other. They have industry and we have energy resources."¹³ Tehran, still paying for reconstruction after the bloody Iran-Iraq war and facing growing isolation, needs to urgently upgrade its largely outdated oil facilities to maintain its export capacity. Equally, Iran is seeking to boost oil production to 5 million bpd by 2009, a feat that requires external assistance.¹⁴

Trade Relations

At the same time, though relatively small, trade between Iran and China has grown quickly – increasing from \$1.2 billion in 1998 to about \$10 billion in 2005 and \$14 billion in 2006.

China's share in the Iranian market has jumped from a tiny 1 percent in 1979 to 8 percent in 2003, with the export of household appliances and capital goods.¹⁵ More importantly,

there are hundreds of Chinese companies operating in Iran. China's North Industries Corp has secured a contract to build the first two metro lines in Tehran in a deal worth \$836 million. Beijing plans to invest over \$200 million to help finance a new highway connecting Tehran to the Caspian Sea, as well as building a dam to the north of Tehran.

Further, China's Chery automobile company has opened its first foreign plant in Iran and is currently manufacturing more than 20,000 cars annually. The company has also entered into a deal worth \$370 million with Iran's Khodro.¹⁶

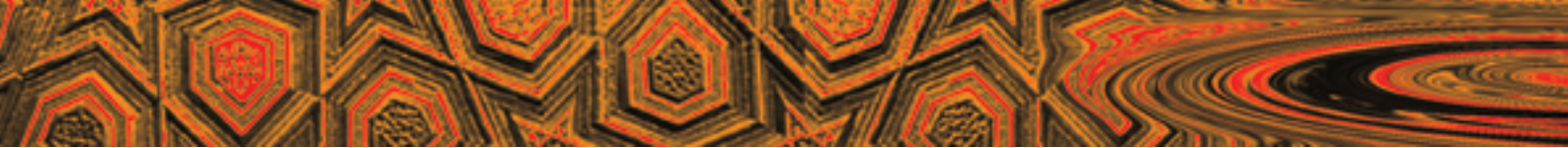
Achieving Strategic Depth

Alongside its economic cooperation with Iran, Tehran's acquiescence to China's rise in the Middle East and Central Asia has wider geopolitical implications.

From Beijing's perspective, Iran offers a prospective naval foothold for the Chinese Navy in the Indian Ocean and the Gulf. The first tentative steps have been taken with China developing Gwadar port in Pakistan. Gwadar is located on the southwestern coast of Pakistan, close to the important Strait of Hormuz, and between the oil-rich Gulf, densely populated South Asia and the economically



11 Karachi Daily Times, March 28, 2007
 12 The "String of Pearls" describes China's efforts to increase its regional reach through access to ports and airfields, stretching from the South China Sea through the Strait of Malacca, across the Indian Ocean and to the Gulf.
 See <http://www.strategicstudiesinstitute.army.mil/pubs/display.cfm?pubID=721>
 13 <http://www.washingtonpost.com/wp-dyn/articles/A55414-2004Nov16.html>
 14 Iran's output of four million bpd, a figure that has remain constant for the past two decades, while other oil producing countries have boosted production.
 15 Presumably the figures would be significantly higher as this doesn't include Chinese goods sold to other Gulf countries, especially UAE, and then reshipped to China or Chinese munitions statistics. http://www.wilsoncenter.org/index.cfm?fuseaction=events.event_summary&event_id=132235
 16 <http://www.iranmania.com/News/ArticleView/Default.asp?ArchiveNews=Yes&NewsCode=50208&NewsKind=CurrentAffairs>



emerging and resource-rich Central Asia. China spent \$198 million in the first phase in what will rank as among the world's largest deep-sea ports. China also has invested another \$200 million into building a coastal highway that will connect the port with Karachi. The second phase featuring nine more berths and terminals is to be financed by China at an estimated cost of \$528 million.¹⁷ The site will also have surveillance capabilities.¹⁸

This coincides with Chinese moves to modernize its navy.¹⁹ China has been building up military forces and establishing bases along sea lanes from the Middle East to project its power overseas and protect its oil shipments.²⁰ To date, Beijing has expressed no desire to police the Gulf. Nevertheless, it has clear intentions of boosting its presence in the South China Sea and Indian Ocean, and in line with China's emerging power status may someday seek to have a naval presence in the Middle East given the long distance oil exports travel from the Gulf to China.

Tied to this is China's desire to reinforce its commercial relations with Iran in order to deepen its presence in Central Asia. This would facilitate China accessing Caspian energy and reducing its dependence on maritime oil imports coming from the Gulf, thus better securing the uninterrupted flow of oil. This is congruous to a series of agreements already reached including the China-Kazakhstan pipeline agreement, worth \$3.5 billion, and its broader efforts to reduce its reliance on Middle Eastern oil.

Equally, China's growing ties with Iran (and Saudi Arabia) provide Beijing a kind of insurance in the event of deteriorating relations with India and/or Japan. For Iran, increasingly isolated by the United States and Europe, China (and Russia) offers Tehran an outlet to the world. Moreover, Iran, currently only an observer, is seeking membership of the Shanghai Cooperation Organization. Washington perceives the organization as largely a Sino-Russian grouping to contain the growing US presence in Central Asia. Equally, the regional configuration is a concern for Iran; bordering US-supported Pakistan and Afghanistan, Tehran prefers greater Chinese and Russian involvement in the region rather than American.

China's Other Regional Partners

Nevertheless despite this gathering of mutual interests, Sino-Iranian relations cannot be defined as an alliance. Whereas former president Jiang Zemin pronounced a "strategic oil partnership" with Saudi Arabia in 1999,²¹ no such words have ever been uttered about Iran. Despite being one of the world's most traveled leaders, having visited over 50 countries so far, including regional tours of Latin America and three visits to Africa, Iran has not figured on Chinese President Hu Jintao's itinerary.

Equally, Iran is not on a recent Chinese list of oil-producing countries that Beijing identified as suitable for investment by the nation's oil companies. Chinese companies can get tax breaks or other incentives for investing in oil and gas industries in Bolivia, Ecuador, Kuwait, Libya, Morocco, Niger, Norway, Oman and Qatar, according to China's planning agency, the National Development and Reform Commission.²²

Instead Iran represents one spoke, albeit an important one, among Beijing's web of relationships, reflecting a more assertive China. Indeed, China has recently signed energy deals with Angola, Australia, Nigeria, Sudan, and Venezuela, which shows China's oil hunt in regions other than the Middle East, and which includes Africa, Central Asia, and Latin America. China has also sought cooperation with Russia. Figures show China's oil imports from Russia and the former Soviet states have steadily increased in recent years. China's oil imports from the former Soviet states accounted for about 10 percent of the country's total imports in 2004, up sharply from 3.1 percent in 2000. Imports from Russia alone accounted for 8.8 percent of total imports in 2004, up from 2.1 percent in 2000.

Securing African oil is an important Chinese objective as it tries to reduce its reliance on oil from the Middle East. Beijing maintains cordial relations with African countries, which are in favor of Chinese investment in the continent. On January 9 this year, CNOOC announced it would buy a 45 percent stake in an offshore oil field in Nigeria for \$2.27 billion. China already has a significant presence in many African countries, notably Sudan, taking 64 percent

17 <http://www.asianresearch.org/articles/2528.html>

18 Bill Gertz, "China Builds Up Strategic Sea Lanes," *Washington Times*, January 18, 2005

19 http://www.pinr.com/report.php?ac=view_report&report_id=364

20 "China Naval Modernization: Implications for US Navy Capabilities" — Background and Issues for Congress, November 18, 2005.

21 Chen Wenxian, "Jiang likely to bring home more crude from Saudi Arabia," *China Oil, Gas and Petrochemicals* 7, no. 21, November 1, 1999

22 "China targets 9 nations as suitable for oil investment," *The International Herald Tribune*, March 2, 2007.



of its oil exports. Similarly, Angola topped Saudi Arabia in February 2006 as the primary source of crude imports, shipping 2.12 million tons of crude to China, compared to Riyadh's 1.98 million tons.²³

China also maintains vigorous economic ties with Tehran's Gulf Arab neighbors and traditional rivals. Trade between China and the Gulf Cooperation Council (GCC) has jumped to over \$35 billion in 2005, with plans to boost trade to \$100 billion in five years. In 2004, China and the GCC states started negotiations on a Free Trade Agreement (FTA). Dubai's enormous Dragon Mart shopping mall and residential complex is the largest trading hub for Chinese wholesalers outside mainland China. Gulf investments in China totaled around \$20 billion last year. Cultural ties are also strengthening, with the establishment of a China-Arab Forum, involving the launch of a dialogue between China and the Arab League.

Equally China has been steadily building economic and military ties with Iran's arch enemy Israel, countering any arguments as to the exclusiveness of any China-Iran strategic alliance. China-Israel trade volume topped \$3 billion dollars in 2005. During a three-day visit to China in January this year, Israeli Prime Minister Ehud Olmert expressed his surprise and offered encouragement during talks with President Hu Jintao and Premier Wen Jiabao, who strongly expressed their opposition to a nuclear Iran.²⁴ Moreover, the Israeli-Chinese military relationship is worth billions of dollars, as Israel became China's second largest supplier of arms not so long ago.²⁵

China's Nuclear Quandary

The ongoing Iranian nuclear crisis puts China in an awkward position. As Iran's main nuclear partner between 1985 and 1997, China halted cooperation following US pressure. Nevertheless a number of Chinese companies have been blacklisted by Washington for transferring ballistic missile technology to Iran. In January 2005, the US imposed penalties on eight Chinese companies, including two firms affiliated with the People's Liberation Army, China Great Wall Industry and China North Industry (Norinco).

Whereas China has repeatedly stated that as a signatory to the Nuclear Non-proliferation Treaty, Iran has the right to peaceful use of nuclear power, and Beijing has stressed that "they (Iran) also have to honor the corresponding obligations and commitments (of not developing nuclear weapons)", it remains under pressure to prove its 'responsible stakeholder' credentials."²⁶

Throughout the crisis, China has sought to dilute tougher measures from the international community against Iran. In January 2006, China's Foreign Ministry spokesperson said: "We believe that the Iranian nuclear issue should be resolved within the framework of IAEA." Yet, Beijing did allow the IAEA to rebuke Iran and refer it to the UN Security Council six months later, despite its often repeated opposition.

Responding to Western pressure to impose sanctions, Wang Guangya, China's Ambassador to the United Nations, said: "I think, as a matter of principle, China never supports sanctions as a way of exercising pressure, because it is always the people that would be hurt." Yet in December last year, the UN Security Council, with Chinese support, voted unanimously to impose limited sanctions. The resolution orders all countries to ban the supply of specified materials and technology that could contribute to Iran's nuclear and missile programs, as well as freezing the assets of key companies and individuals involved in the programs. Admittedly, China managed to weaken the stiffness of the sanctions as proposed in the initial resolution draft but it does indicate Beijing's reluctance to act as a spoiler against UN action.

Moreover, China has an ally in Russia. China's Assistant Foreign Minister Li Hui affirmed: "On the Iran nuclear issue, China's and Russia's positions are clear to all. They have mutual concerns and complementary positions."²⁷

It remains uncertain how China would respond without Moscow's support.

23 http://www.mg.co.za/articlePage.aspx?articleid=268099&area=/breaking_news/breaking_news_business/
 24 Audra Ang, "Israeli PM encouraged by firm Chinese stance on Iranian nuclear issue," Associated Press, January 11, 2007.
 25 <http://www.commondreams.org/views02/0509-07.htm>
 26 Reuters, June 26, 2006.
 27 <http://www.turkishdailynews.com.tr/article.php?enewsid=68790>

Global Action Forum: Arab and Asian Dialogue – A Report

Keeping in mind the evolving opportunities and challenges in the 'rediscovered' relationship between the Middle East and Asia, the Dubai-based Young Arab Leaders organized the "Global Action Forum: Arab and Asian Dialogue" in Singapore on March 27-28 to push for a better understanding, not just between the governments and businesses, but between the peoples of the two sides as well.

The Gulf Research Center served as the "Lead Knowledge Partner" for the event and provided relevant background literature and concept papers for some of the plenary sessions, summarized topics to be debated, and formulated pertinent questions for the various sessions for use by the respective moderators.

The forum brought together some 200 participants belonging to diverse sectors from about 10 countries on each side – Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia and the United Arab Emirates; and China, India, Indonesia, Japan, Malaysia, Singapore, South Korea and Taiwan.

In his opening speech, Saeed Al-Muntafiq, Chairman, Board of Young Arab Leaders, and Chairman, Tatweer, UAE, highlighted the importance of dialogue with Asia, with three of the four largest economies of the world tipped to be in Asia by 2030, if current growth patterns sustain. He stressed that Arab countries were eager to participate in the ongoing Asian economic boom and find appropriate investment opportunities for large pools of oil-generated liquidity. But cross border investments and technology transfer can also go the other way round as both regions collectively are in need of \$2 trillion of infrastructure investments, it was pointed out.

However, Muntafiq said, cultural exchange between Arabs and Asians is still minimal and pointed to the need for preservation of values and heritage in a fast-paced globalized world. Thought leadership and initiatives like the Global Action Forum were required to foster such cultural

exchange. On the social side, he stressed the fight against poverty, and the need for job creation, better education and improved healthcare, which are of utmost importance, especially for a rapidly growing young population.

"Closer ties between Arabs and Asians will not be an option; they will be crucial...they are ties of a common future," he concluded.

Speaking on behalf of King Abdullah of Jordan, Prince Feisal Al Hussein, focused on two major issues in his keynote speech: one, the emerging and critical nexus between Asia and the Middle East; and two, the vital contribution of the private sector and civil society groups like the Global Action Forum to such an emerging region-to-region partnership.

The prince stressed concerns such as market access, debt policy and resources for development. Further, he elaborated on the need for cooperation in education, health care, development and security. "Our regions have a unique fit in trade and commerce: combining the Arab world's gateway position between East and West, Asia's global reach as producer and consumer, and both regions' greatest asset, the vitality and talent of our people," he said.

On a lighter note, Prince Feisal drew attention to the famous Arab traveler and scientist Ibn Battuta, who 700 years ago needed over 13 years to travel from the Arabian heartland to Asia. He said that with the modern means of transportation, the youth of Arabia and Asia are much better equipped than Ibn Battuta to intensify cultural exchange and contribute to a better mutual understanding.

In a special address that traced the Middle East-Asia relationship to 2,000 years, Singapore's Senior Minister Goh Chok Tong forecast that the "old friends" can come together "to build an exciting future."

Saying that "ASEAN is like a jumbo jet being lifted by



the wings of China and India,” Goh expressed the hope that the bloc, which comprises most of the countries in Southeast Asia, will succeed in establishing an economic community by 2015. It will comprise an “integrated market and free flow of goods, services and investments,” he said, expressing the hope that this will transform ASEAN into a more effective roots-based organization, sharing certain principles and values. He also was optimistic about the proposed Arab Common Market coming to fruition in 2014 and linking up with the ASEAN economic community.

In a discussion that resonated with the notion of “making ourselves relevant in an ever-changing world,” Singapore Minister Mentor Lee Kuan Yew enchanted the audience with a platter of wisdom that had helpings of history, personal experience, politics, economics, social and cultural values, as well as cheeky one-liners.

Explaining the Singapore success story, which was the central theme of the 90-minute discussion, Lee emphasized the need to “compete” to remain relevant. He drew attention to the fact that China and India are quickly becoming attractive manufacturing locations for investors, which is forcing his country to innovate and develop niche areas that these countries cannot up with just yet. “... the logistical hub must work seamlessly. And the key is: Are we relevant? Is there another place which is more relevant than us? If there is, then we’ve lost it,” he said.

On the question of political reforms, the 79-year-old Lee said change in any part of the world cannot or should not be imposed from above or abroad. With particular reference to Arab leaders, he said, they should “carefully choreograph the process through which you go from a very centralized control to a more defused power sharing in every field.” He also urged Arab leaders – in the social, professional and religious fields – to decide whether they should be part of “the technological world that has come into being, or whether you believe the problems that have beset the Arab world today can be resolved by going back to pure Islam.”



However, the important thing to do, in his opinion, “before you are going to have any form of popular participation in government, is to have an educated people. If you do not have an educated people you could have wild swings of emotions based on illusions.”

To have an educated people, along with developing a competent indigenous workforce, he said, requires “decades of hard work and you have to educate the women most of all, because they bring up the children. Once you have an educated population, educated women, equal job opportunities, then things begin to fall into place.”

Attributing part of the Singapore success story to the English medium of education, Lee said: “What we did was to switch the education from native languages to

English and keep native languages as a second language. It was a very difficult thing to do, emotionally; it could not have been done by legislation, we would have had riots ... The market decided who got the better jobs. So the parents began to shift their children into English language schools with mother tongue as a second lan-

guage, and today, 40-plus years down the road, we are connected with the (modern) world,” because “the modern world is in English.”

Identifying Vietnam as the country with the greatest potential in the ASEAN, Lee attributed this to the country having a very low base – cheap labor and land – leading to Intel choosing “Vietnam because they are learning very fast and they are learning English.”

Answering a question on the prospects for a stronger relationship between the Arab countries and Asian countries, Lee drew attention to the history of the region: “Before the rise of the European powers, the Portuguese, then the Dutch, the British and the French..., the Arabs were one of the earliest seafarers who brought in Islam, trade, and intercommunications...That connection was overlaid when the European powers divided the region...Now that they have been relegated, Arab-Asian ties will resume.”

**IF IT HAPPENS
IN THE GULF
AND
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REPORTED
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NOW YOU CAN
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IN
ONE PLACE**



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The statesman pointed out that while North Africa was the “hub of the Arab world” in the 1960s, the process of making “ourselves relevant” means “we connect with people and countries that will find us useful partners for trade, for investments, for projects, and we have more projects now from the Gulf area than Egypt, or Algeria, or Morocco,” and “this interconnection is likely to grow.”

Engagement with the “Gulf area” will increase, he said, “because there is economic benefit on both sides.” The Chinese, Indians and Japanese “will want to cultivate the Arab states, especially those whose economies are growing...So I see this interlocking of trade and investments and projects consultancies growing rapidly over the next 10-20 years,” Lee concluded.

In the discussion session on “Challenges of Global Leadership,” it was highlighted that what has been termed as an Arab-Asian Dialogue is, in fact, an Asian-Asian dialogue. This then led to pointing out of the “shifting power” in the world – “power that is economic, or even political now, is shifting from Europe and America to Asia” – which is witnessing new values, theories, and ideas, which are challenges that require dialogue. This assumed importance because it is being dubbed as an “Asian century” and to exploit this, “we have to build synergies between the various distinct regions of Asia.”

Panelists stressed that leadership is a “two-way commitment” – not just that of a leader, but also of the followers. It was stressed that anybody can be a leader, but “unless they can align people, their objectives, their dreams, their ideas behind what they are trying to do, very few leaders will actually have a chance to lead,” which is the challenge for a lot of global leaders.

From the debate, it also emerged that though it appears that political leadership is setting the tone for a change in relationship between the Arab and Asian countries, it would be more appropriate to point to business leaders as the real catalysts of change. In a similar vein, it was also felt “economies in the global marketplace are driving a lot of political realities.”

The full report of the event as well as recommendations and commitments of the three working groups can be found at the following link: <http://www.yaleaders.org/arabasiadialogue>

Fifth Round of Japan-Muslim World Dialogue among Civilizations – A Report

The Japan-Muslim World Dialogue among Civilizations (JMDC) is a response to a Japanese initiative in January 2001. The then foreign minister of Japan, Yohei Kono, suggested initiating a dialogue between Japan and the Gulf Cooperation Council (GCC) states. The proposal was well received and expanded under the persuasion of the Japanese consultative team headed by Prof. Yuzo Itagaki, professor emeritus at Tokyo University and one of Japan's top experts on Arab affairs, to become a dialogue between Japan and the Muslim world, especially after the September 11, 2001, attacks. The Bahraini and Japanese foreign ministries took the responsibility of making sure that the various rounds of the dialogue are held on time, but entrusted two institutions with establishing conceptual foundations of the dialogue – the Bahrain Center for Research and Studies (BCRS) and Tokyo University. Four rounds of the dialogue were held – in Manama in March 2002, Tokyo in October 2003, Tehran during November 2004, and Tunis in January 2006. The following is the report of the fifth round of the dialogue held in Tokyo on February 21-22, 2007.

In the Manama round, three themes were discussed – Islam and Globalization; Co-existence and Interaction between Islam and Japan; and Islam and International Relations. In Tokyo, the emphasis was on the theme of Peace and Human Development with sub-themes on Modernization and Encounter of Cultures: Japan Viewed in Islamic Perspective; and Modernization and Encounter of Cultures: Islamic World viewed in Japanese Perspectives. While the Tehran round dealt with Human Dignity from Japanese and Islamic perspectives, the Tunis round focused on the question of Diversity in Human Society from Japanese and Islamic perspectives. The themes of the four rounds were quite relevant to the contemporary issues of concern to the Japanese and Muslims.

In all, 36 participants took part in the fifth round of the JMDC – 22 from the Muslim world, and 14 from Japan. Participants from the Muslim world came from Bahrain,

Egypt, Indonesia, Iran, Jordan, Kuwait, Lebanon, Malaysia, Oman, Qatar, Saudi Arabia, Tunisia, the United Arab Emirates, and Yemen.

The latest round focused on the theme of Co-existence and Harmony of Civilizations – the Role of Dialogue among Civilizations. Under this banner, three topics were singled out – Islam and Development; Environment, Life and Cultural Diversity; and the Role of the Media. Prof. Itagaki delivered the opening statement in which he underscored the notion of cultural diversity as one of the main elements of strengthening the community and that the Japanese have a lot to learn from Islam in this respect, since Islam refers to the notion of positive interaction between various peoples and tribes. Dr. Al-Ghatham of the BCRS delivered an opening statement emphasizing the notion of dialogue as a means of co-existence, and the similarities between Japanese and Muslim historical legacies.

In the first session, Prof. Mohammad Selim of Cairo and Kuwait universities delivered a keynote address on Islam and development. He emphasized that it has been empirically proved, despite Max Weber's claims, that Islamic values are not an obstacle to development, and that although Islam presented a distinctive paradigm of development, such a paradigm has not significantly influenced the developmental performance of Muslim states. This



Prof. Mohammad
El-Sayed Selim
Department of
Political Science
Cairo and Kuwait
Universities

was attributed to endogenous factors, exacerbated by exogenous ones, (the Ottoman and colonialist legacies) and that development in Muslim states depends on the ability of the leadership to comprehend the real meaning of development in Islam and act accordingly. It was also argued that Japan has a certain responsibility in this debate and that the tumultuous winds which are now blowing across the Muslim world call for a new role from Japan in the Muslim world.

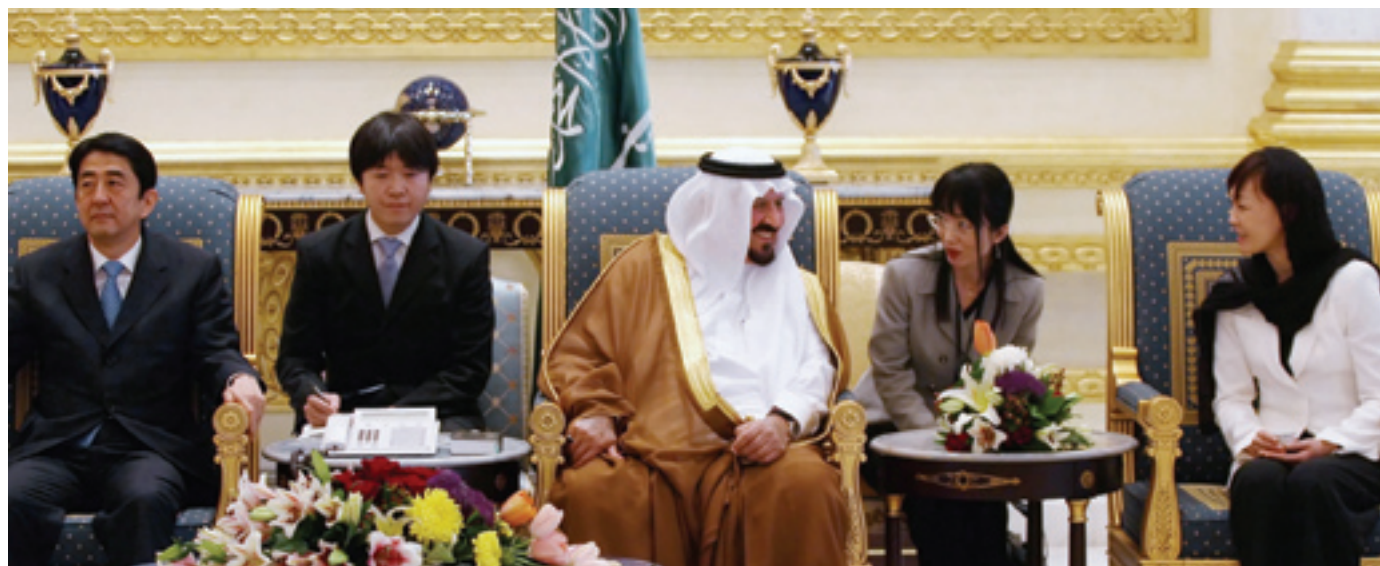
The first role is to “rationalize” the Western onslaught on the Muslim world under the pretext of combating terrorism. Occupying and terrorizing Muslim states and forcing them to adopt Western recipes is not a solution and Japan is better advised not to appear in the Muslim world (Afghanistan and Iraq) in the shadow of Western occupying troops, but as a force of moderation and rationalization. The American model in Japan after the Second World War cannot be replicated in any Muslim state given the cultural differences in the historical Western-Islamic legacies, as the Afghan and Iraqi examples testify. Further, Japan could expand its relations with the Muslim countries through persuading governments to genuinely expand the process of democratization from within, and expanding genuine technological partnerships with Muslim states, as was the case with Malaysia. Fortunately, there have been new forums within which Japan could interact with many Muslim states outside the Western agenda, one of which is the Japan-Muslim World Dialogue among Civilizations Forum. The others are the Asia Cooperation Dialogue and the Asia-Middle East Forum.

The Muslim world itself was also called upon to “Look East” through genuine interaction with Japan, not for the purpose of getting financial assistance, but to draw lessons from the Japan developmental experience.

In the second session, Prof. Soho Machida of the Hiroshima University delivered a presentation entitled “New Paradigm of Civilization in the 21st Century,” in which he outlined the Japanese paradigm of nature, and the environment. Machida indicated that the Japanese paradigm of civilization underscores the intersection between mind and body, man and nature, and individual and community. He noted that modern civilizations confront a serious crisis which may make its collapse quite imminent as it focuses on the destruction of nature and reinforces the gap between the haves and have-nots. He also referred to Japanese Polytheistic Cosmology, which promotes nature worship and considers all natural phenomena as sacred. Comparisons were made between the Japanese and Muslim paradigms of life and environment. It was indicated that Islam underscores the sanctity of human life and that such life cannot be taken without a legitimate justification, and that Islam persuades the believers to preserve their natural environment.

In the third session, Jordanian scholar Dr. Nabil El-Sharif delivered a keynote address entitled, “The Role of the Media in Bridging Cultures.” El-Sharif referred to the case of the Danish cartoons which was a prime example of how the media could create gaps between cultures. He also pointed to the expansion of the concept of media to

Crown Prince Sultan bin Abdulaziz of Saudi Arabia and Japanese Prime Minister Shinzo Abe in Riyadh, April 2007



include wider categories including people who possess a mobile phone with a built-in camera, or have access to the Internet. These new categories also contribute to media reporting as was the case in the hanging of the former Iraqi President Saddam Hussein. He also pleaded for a role for the civil society in monitoring media bias.

Morocco's Mostafa Rezrazi, who is currently based in Japan, referred to his previous field work on 340 Japanese TV documentaries between 2001 and 2005, which show the negative perceptions of Muslims. He also demonstrated that media contacts between Japan and the Arabs are declining as Arab and Japanese newspapers are closing down offices in Tokyo and Arab capitals, and pleaded for a reversal of that trend.

While analyzing the deliberations of the fifth round, there is no doubt that the JMDC has contributed tremendously to the enhancement of mutual understanding between groups of Muslim and Japanese intellectuals. However, the JMDC needs to move beyond being a government-sponsored event to include input from civil society institutions in Japan and the Muslim countries to enable it to be represented by different civilizations. In fact, a special fund should be created to enable participants to attend outside the control of governments.

Secondly, in the JMDC Arabs are over-represented. Malaysia and Indonesia were the only other Muslim states to participate from outside the realm of the Arab world and Iran. Other Muslim states in Africa and Asia, such as Nigeria, Senegal, Mali, Somalia, Pakistan, and Central Asian states such as Uzbekistan and Kazakhstan are yet to get involved in this dialogue. Only if they do will the event be truly representative of the Muslim world.

Thirdly, it may be useful to consider establishing a permanent Japan-Muslim World Cultural Foundation. Such a foundation should be entrusted with the task of supervising the JMDC in all respects. The foundation will decide on the themes to be discussed, participants and their affiliations, venue of the meetings and publication of the proceedings.

Finally, Muslim states should take the JMDC seriously if they are to persuade Japan to play a more balanced role in the age of unipolarity, and a more active role in technology transfer to Muslim countries as it had done with Malaysia.

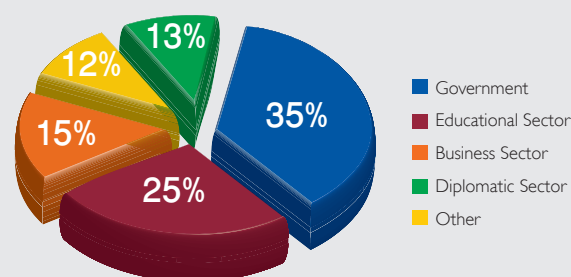
Araa - The GRC Magazine



Launched in 2004, Araa focuses on economic, political, social, and defense issues relevant to the geopolitical Gulf region – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the UAE, Iraq, Iran, and Yemen. Araa is part of GRC's attempt to redress the lack of adequate representation

of re-gional opinions and interests and fulfill its mission of 'knowledge for all.' This influential publication – reflecting the views of established academics and columnists – has gained in reputation over a period of time. Araa writers come from academia, business and industry, and occasionally the public sector.

Araa Readership Profile



Araa editorial plan 2006-2007

July 2006:	GCC water crises
August 2006:	GCC e-government
September 2006:	Yemen
October 2006:	GCC aviation
November 2006:	Iraq
December 2006:	Real estate & construction
January 2007:	Defense
February 2007:	Telecom/satellite channels
March 2007:	Energy
April 2007:	Gulf security
May 2007:	Iran

Middle East Policy As I See It



Taro Aso
Minister of
Foreign Affairs
Japan

The following is a compilation of relevant extracts from the text of an address by the Japanese foreign minister at an event organized by the Middle East Research Institute of Japan on February 28. The full text of the speech can be found on the website of the Ministry of Foreign Affairs of Japan (http://www.mofa.go.jp/region/middle_e/address0702.html).

Today I would like to expound upon what I myself consider to be our guiding principles as we move forward with our Middle East policy in the months and years to come.

The Arc of Freedom and Prosperity

It was exactly three months ago that I spoke on the topic of forming an “arc of freedom and prosperity,” and in so doing announced a new principle for Japanese diplomacy.

Forming this arc would mean emphasizing universal values such as freedom, human rights, democracy and the rule of law in an area that geographically traces an arc along the outer rim of the Eurasian continent. This would be based upon the experiences that we Japanese have had as a result of our own struggles over the years.

I repeated this idea once again during my recent policy speech at the opening of the current Diet session, introducing it as a new axis for Japanese diplomacy.

What, exactly, do we consider important in life? Putting those values into words defines us in terms of what we are and what we aspire to be.

In this way, forming an arc of freedom and prosperity to my mind represents an attempt for Japan to define itself.

In some countries or areas within the Middle East, there might be some wariness at the words “freedom and prosperity.” However, the way that Japan conceives of this principle is something that I am confident that everyone will be able to accept.

I want the peoples of the Middle East – and by that I mean the Middle Eastern region in the largest sense, from Afghanistan to northern Africa – to know what exactly it is that Japan treats as invaluable. Then, one day, I would like the people of the Middle East to hold those same ideals in common. This is my hope.

Words of Healing to Soothe Injured Pride

That said, while it is good for us to convey who we are to others in a straightforward way, the cardinal rule of diplomacy is that diplomacy can go nowhere without an understanding of the other party.

With that in mind, I would like to take a moment to imagine what it would be like if I had been born in the Middle East, taken Islam as my religion, and were now living there.

As I understand people of the Islamic faith, we can say for example that Muslims in general love their children no less than anyone else does.

Therefore if I were to stand in their shoes, should innocent children be killed as a result of terrorist attacks, it would be we Muslims who would be the most outraged and infuriated of anyone. At times we might want to raise our voices in our outrage, protesting that terrorists do not even deserve to call themselves Muslims.



And yet as a point of fact, at times the teachings of Islam, or the people of the Islamic faith, are in certain arguments painted with the same brush as terrorists, so I would think that more than once, we would have also wanted to say that we are misunderstood by the rest of the world.

If you read up on history you will soon come to see that the Middle East has historically been a place fusing and sublimating the cultures of East and West, bringing forth the foundations of modern civilization. For the people of the Middle East to have tremendous pride in this history is only natural.

Still, when you look at the modern era, it seems that things have not gone especially well. The Middle East, I would argue, is characterized by having many people who harbor feelings of frustration over this.

Is it not perhaps the case that people of the Middle East are yearning in their heart for words that will ease some of the pain of this injured pride? I believe that a sensitivity towards this matter must be the first building block for Japan's diplomacy toward the Middle East.

After that I consider it important to state clearly the fact that while we abhor terrorism, we Japanese do not by any means hate Muslims.

The Middle East as the "Ginza 4-Chome" of Diplomacy: Three Reasons

After that long introduction, let me now move on to the heart of the matter.

As a person charged with enhancing the prosperity of Japan for our children and our children's children, it is impossible for me to overemphasize the critical importance for Japan of the Middle East, which provides us with such important resources.

In forging principles for our Middle East policy, the first thing I must state today is my determination to deepen our engagement with the Middle East region with regard to not only economic but also political dimensions.

I will be addressing this in more concrete terms later in my remarks, but I believe that we must take every opportunity to increase the frequency of mutual visits by high-level and senior officials.

For Japan, the issues of the Middle East are, as someone rightfully said, "required subjects" in the field of diplomacy. If I were to rephrase that concept in my own words, I would say that in the diplomatic world, the Middle East is the equivalent of Tokyo's venerable Ginza 4-chome shopping district, the upscale must-see for over a century for folks visiting Tokyo for the first time. It is the area in which others will assess your overall strengths in the field of diplomacy.

Let me present to you today three reasons why it is fitting for me to state that the Middle East is so important.

Reason Number One

The first is related to oil resources.

In 2006 Japan was dependent on the Middle East for 89.2 percent of its imported crude oil, with the Gulf Cooperation Council states, or GCC states, providing 76.4 percent of our total imported crude oil.

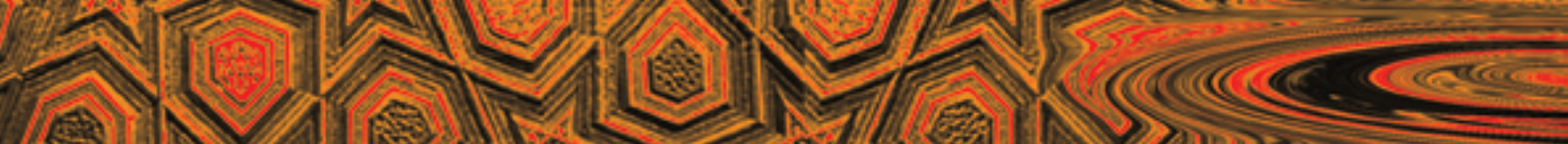
Add to this the emerging economies of China and India, which already depend on the Middle East for approximately 40 percent and 60 percent of their oil imports respectively, and it becomes apparent that for the foreseeable future, the outlook from the perspective of the Middle East is that the oil market would become a sellers' market to the extreme. As an oil consumer, clearly Japan must maintain a tangible presence in the Middle East.

However, when we consider the world's recoverable petroleum reserves, we can see that in the future not simply countries such as China or India but indeed the entire globe will be increasing their degree of dependence on oil producing countries in the Middle East. The more the world depends on the Middle East for its oil import, the more increasingly important stability in the Middle East will become in the future. The reverse is clearly impossible. This is my first reason for you today.

Reason Number Two

The second reason why the Middle East is so critical is related to the unexpectedly bright prospects now seen in the region.

We are given to thinking that the Middle East is in a state of constant turmoil, but I would instead like to ask



Hiromasa Yonekura, President of Sumitomo Chemical Company, Ltd. for his views, as Sumitomo Chemical has just entered into a joint venture with the world-famous Saudi Aramco for the development of one of the largest integrated refining and petrochemical complexes in the world, and he might tell a very different tale about the appeal of operating there.

This Rabigh project of Sumitomo Chemical in Saudi Arabia is truly enormous in scale, with total operating expenses of over 1.1 trillion Japanese yen (over \$9 billion). Simply supplying electricity, steam, and freshwater requires a major effort, being conducted by Mitsubishi Heavy Industries, Ltd. As a project involving numerous entities among corporate groups, the tale of this extremely “hot” project now underway there in the blistering heat of Saudi Arabia looks to become one that will be handed down over the years as a great success story.

In the Gulf region now large-scale projects are becoming quite common, and as a result, there is no time like the present to have this “all-Japan” diplomatic power, which incorporates the private sector, exercised in the Middle East.

This is yet another definite aspect of the Middle East. Assisting Japanese companies that move to take advantage of this opportunity will have a tremendous positive impact on our national interests.

Reason Number Three – The Middle East at a Crossroads: Stability or Turbulence?

Yet my third reason is the most important of all, and one of which you are already well aware.

It is my firm belief that the Middle East region as a whole stands at a crossroads of great consequence. That is, the question before us is whether the region will head towards stability or instead spiral downward to turbulence and turmoil.

In the past, issues were largely compartmentalized, so to speak, with Middle East peace issues being Middle East peace issues, Iraqi issues being Iraqi issues, and Iranian issues being Iranian issues, more or less. Yet from around the time of the fall of Saddam Hussein, the balance of power has shifted, and such issues now have a host of mutual repercussions and interactions.

As a result, in at least certain parts of the Middle East, the situation is moving increasingly towards one with an extremely unpredictable future order. In such cases, extremist groups deviating from the original form of the religion are able to increase their power and the situation becomes increasingly confused.

Bringing about Poles of Stability for a Less Turbulent Order

I would assert that herein lies the answer to the question of why it is essential for Japan to strengthen its political engagement with the Middle East.

By that I mean it is imperative that we secure and then reinforce maximum stability in the region, leading to a calmer and more stable order. This can be achieved by making full use of Japan’s economic resources, intellectual resources, and diplomatic resources, in what I call an “all-Japan” effort.

When I speak of this to my ministry’s Arabists or our specialists speaking Persian or Turkish or Hebrew, I want them to be full of anticipation and excitement at what that implies. To assist in bringing stability to the region of the Middle East, a task with true significance in the history of the world, is the job that stands before us now.

A Corridor for Peace and Prosperity

Among these, the tremendous significance to be found in the Middle East peace process – that is, of working to bring about permanent coexistence between Israel and Palestine – cannot be emphasized enough.

If the order in the region became turbulent with this issue as its seismic center, or even in the opposite case, in which this area reached a state of maximum stability, a type of multiplier effect would develop, with implications throughout the region.

New momentum has emerged for peace in the Middle East. In the Palestinian Territories, a national unity government is now finally looking to take shape. I believe that we must enhance this momentum by exchanging high-level visits repeatedly between Japan and Israel, and Japan and Palestine, while working together with such major powers in the region as Egypt and Saudi Arabia.



The concept of creating a Corridor for Peace and Prosperity, proposed by Japan, has a particular significance at this time.

Japan is calling for the creation of this Corridor for Peace and Prosperity on a route starting from the territory on the western bank of the Jordan River, better known as the West Bank, across Jordan and beyond, leading to the Gulf States.

The West Bank of the Jordan Valley, in which Palestinians reside, has a flat belt of land, rare for this region, of some 1,000 square kilometers, an area about half the size of Tokyo. As just a brief outline of the Corridor initiative, this area would be utilized as a central point for high-value added agriculture.

***Brought Forth through Fruit:
Trust, Confidence, and Immunity
to Terrorism***

39

Nation-building in the state of Israel started with success in agriculture. And what Israel was able to achieve, Palestine too must become able to achieve. The West Bank must bring forth fruit and olives in much greater plenty than now.

In order for that to happen, it is critical to have regional cooperation regarding water issues. Furthermore, the final products must pass through Jordan if they are to get to the Gulf States, the largest consuming region.

For that reason, the Palestinians cannot avoid cooperating with the countries concerned, namely Israel and Jordan, to create such a Corridor.

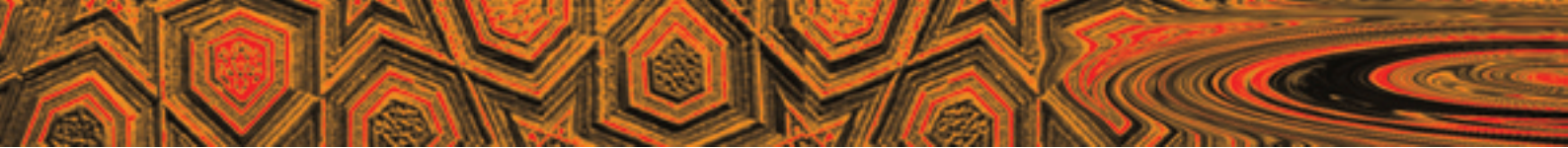
In fact, this statement contains the most significant aim of the Corridor for Peace and Prosperity initiative. Specifically, Japan would serve as the

flagperson, calling on everyone to make his best efforts. Through their experiences in cooperative undertakings and the solid achievements that these experiences will bring about, the people of the region will gain the most valuable asset in the Middle East, and that asset is none other than trust.

But that is not all. Upon agricultural development and the success of agro-industrial parks, the youth of the Palestinian Territories will gain not only employment opportunities but also a can-do approach to challenges. What they will gain, my friends, is confidence.

Kuwaiti and Japanese Prime Ministers Sheikh Nasser Al Mohammed Al-Sabah and Shinzo Abe in Kuwait in April 2007





For us in the Asian context, it was when we first gained this confidence and became optimistic about our futures that our economies took off. I want the people in the Palestinian Territories to feel that same sense of achievement well up inside them. In my view, there is no better way to build immunity to terrorism than that. The thought of optimists full of confidence about themselves and their future engaging in terrorism is a mismatch of the highest order; if such people do indeed exist I for one would like to meet them.

If the West Bank, which has often been synonymous with turbulence and tragedy, could instead become another word for “a pole of stability” and “success story,” we can expect that the resulting multiplier effects would be nothing but positive.

A Free Trade Agreement with the Gulf Cooperation Council States, and Comments on Turkey

Another key point in making a pole of stability in the region is the strengthening of our relationship with the GCC states. We are now working to conclude a Free Trade Agreement, or FTA, with the GCC, and we are proceeding at a pace that is truly unprecedented.

An FTA would enhance our economic relationship with our most significant trading partners in the Middle East, namely Saudi Arabia, as well as with other GCC states. By extension, this will help to ensure a stable supply of oil resources.

Upon the conclusion of this agreement, there will be even greater interaction between Japanese companies and the GCC, and all the more so in the case of direct investment. And as the traffic between our countries intensifies, managerial and business know-how will begin to be transferred from Japan to the GCC states.

These will create a virtuous circle, and what will result is increased stability in the economies and societies of the GCC states over the medium to long term. I believe that in concluding an FTA with the GCC, great significance can be found in this point. Indeed, in my mind, this makes our FTA important in a broader international context as well.

Along with Jordan, Japan has been stressing the critical nature of education and of developing human resources in the Middle East. In Afghanistan, Japan has established nine job-training centers to assist with the reintegration of former soldiers into society

In looking at Turkey, as one of the largest countries in the Middle East, it is imperative that there too a pole of stability be achieved.

Both historically and in the modern era Turkey has held a strategically important location geographically. The fact that Turkish is commonly understood across Azerbaijan and into Kyrgyzstan only underlines the point that interacting with Turkey nowadays is of increasing significance. Turkey is also one of the few countries in the region that does not have a poor relationship with Israel. In a number of ways it

is indeed critical for Turkey to be at the heart of regional stability.

This same Turkey has been waiting to accede to the European Union for many long years, and now even at the stage of negotiations for accession it has found the road to be extremely difficult. I feel that we must not allow our voicing of moral support for Turkey to die down. The challenges of modernization and democratization that Turkey successfully went through are those that Japanese consider close to their own hearts. I want to convey my support to Turkey and encourage it wholeheartedly to keep up its efforts.

Dealing with Iraq, Iran, and Afghanistan

The other question of course is how to deal with countries that are already facing the risk of their order entering a state of flux, namely Iraq, Iran, and Afghanistan. In none of these cases can we say that optimism is warranted.

However, in the case of Iran for example, the Iranian Foreign Minister and I have a relationship at present by which we can readily have conversations by telephone, and I intend to maintain our relationship so that we can continue to do so. Japan enjoys a very unusual position in the international community, able as it is to hold conversations with any country throughout the Middle East in the broadest sense. I very much consider this to be a key asset for Japan’s diplomacy.

Diplomacy of course is really an art at its core – the art of persuasion. This year, I plan to have our staff at the Ministry



of Foreign Affairs become extremely well-versed in the art of persuasion as they become engaged with Iran.

Today I will not be touching further on Iraq or Afghanistan, but there are three thoughts that I would like to leave you with today.

The first of these is that Japan has over the past few years gritted its teeth and continued to invest in these two countries in various ways – in terms of human resources, goods, and capital, regarding economic, political, and also national security matters. In Iraq, people in our Ministry even lost their lives in the course of their service to society. Having overcome the tragedy of our lost colleagues, if we were now to retreat out of fear, what purpose would our many efforts there have served?

The second point I would like you to remember today is that unless we are able to stop the bloodshed in Iraq and Afghanistan, it will be no surprise if the violence occurring among religious factions and by terrorist extremists spreads beyond the Middle East as a whole to various regions of the world. In that regard, this issue is of the greatest urgency.

Working to Eliminate Animosity and Build Confidence

The third thought that I want to leave with you today is one that is always a major issue, and that is the image of Japanese, whether in Iraq or Afghanistan – or, for that matter, anywhere in the Middle East – appears not to be a negative one at all. It may be presumptuous for me to make such a statement, but this does in fact seem to be the case.

It seems somehow that there are no feelings of ill will towards Japanese in the countries of the Middle East. Instead, what we often hear is that people hold Japan in a positive light as a rare example of a non-Western European country that has successfully modernized while maintaining its own traditions.

To give you a different perspective on this, one columnist in Iraq had an article in the newspaper that ran something like this. “Japan for me has always been a part of my imagination since I was little.... The Japanese have always been here with us, along with UFO Robo Grendizer and Captain Majed.”

So you see, Japanese anime is very well received in this region of the world, too. UFO Robo Grendizer is a robot-focused anime series created by Go Nagai; Captain Majed is the Arabic name for none other than our Captain Tsubasa.

Both of these are in a class by themselves in popularity in Iraq and, indeed, all over the Middle East. Yet despite such fertile fields existing for Japan in this region, Japan has not been successful in watering these crops. We need to push a bit more for better public relations efforts.

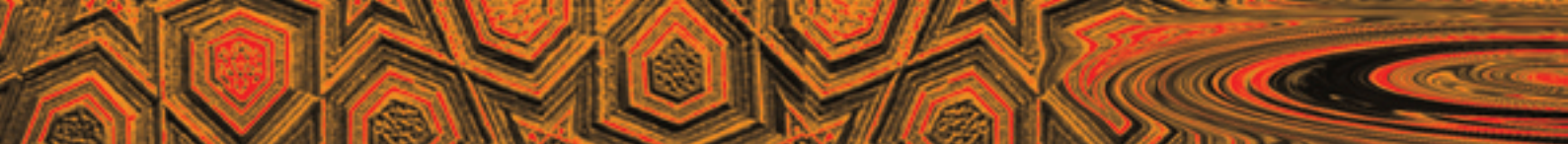
At any rate, if indeed it is the case that Japan is a country fortunate enough to be seen without particular prejudices by the various countries and factions around the region, then that suggests a unique role has emerged for Japan.

Even people who, if they had not come to Japan, might never have interacted at all their entire lives, and might even have come to hate each other, are able to discuss issues with full peace of mind when the venue is Japan. This is because, should someone come to a meeting in Japan, he or she would not be branded with any particular label. In other words, Japan is able to play a major role in both eliminating animosity and building confidence, and, indeed, this is a role that it should take on.

Japan brings together bereaved families from both Israel and the Palestinian Territories victimized by terrorism, enabling them to experience their common feelings of grief. When I first learned that various local authorities in Japan are undertaking programs that make use of these shared feelings to seek avenues for reconciliation, I was genuinely delighted. The Ministry of Foreign Affairs has been providing assistance for these efforts.

In Israel and the Palestinian Territories, or in Japan, initiatives are being undertaken to bring together parents who have lost their children, or children who have lost parents or siblings. By all means we will be continuing steadily with such truly moving efforts.

In addition to these projects, we have been continuing for some time to bring together young civil servants, students and youth leaders, and journalists from both Israel and the Palestinian Territories, and as we continue these efforts their impact becomes greater.



Japan is also promoting intellectual exchanges and dialogue fora, such as “the Japan-Arab Dialogue Forum” and “Dialogue among Civilization between Japan and the Islamic World.” It is my goal that eventually, in the minds of the people of the Middle East, it will be Japan that excels in enabling people to consider the issues shared across the region.

Issues Common to the Middle East

Taking up now the question of what issues are common to this region, I believe that the answer has already emerged.

I have saved this point for last, and with that in mind let me touch here on the importance of fostering human resources in the region.

Along with Jordan and other countries, Japan has been stressing the critical nature of education and of developing human resources in the Middle East.

In Afghanistan, Japan has established nine job-training centers to assist with the reintegration of former soldiers into society.

What’s more, public-private partnerships have helped to advance projects such as an advanced training institute for automobile-related technology in Saudi Arabia and the improvement of education in automated control technology in Turkey. This emphasis on job training is a hallmark of Japanese efforts in the Middle East.

In Saudi Arabia, Japan is involved with a program that assists women who often stay in the home with the fundamentals of starting a company even at home. Another hallmark of our efforts is that we work for the empowerment of women.

The feudal lord, Takeda Shingen, is said to have remarked that it is people that build stone walls, and people that build castles – meaning that people are indeed valuable resources. And while I am no Takeda Shingen, I am able to say that Japan’s modern history began once it began investing heavily in people.

Japan has led the world in promoting government-financed foreign students and in making elementary education compulsory.

It is absolutely clear to me that in the case of modern Japan, it was the ongoing investment in human resource that served as the foundation upon which our freedom and prosperity rested.

In the future as I work towards the creation of an arc of freedom and prosperity in the world, I will make it clear that efforts should start with human resource development.

In the Middle East, the importance of human resource development and education has been emphasized increasingly in recent years as a result of one situation that is quite imminent. When I spoke earlier of issues that are common throughout the region, this is what I was referring to.

Specifically, in the first half of the 21st century, across the board the Middle East region will be experiencing a population explosion. Saudi Arabia for example will see its population more than double between 2002 and 2025, going from 23.5 million people to an estimated 48.5 million. Over the same time period Egypt will see its population grow from 73 million to 103 million, and even Iraq is expected to grow from 24 million to over 40 million.

The question is therefore how we can bring hope for the future to the tremendous number of young people with which the population will swell in the years to come, and how we can create necessary employment opportunities for them. Should we err in our handling of the situation, there may very well appear groups of frustrated persons, the scale of which the world has never seen before. This will most certainly result in the region being an ideal hotbed for terrorism.

With this in mind, I perceive the Middle East as currently standing at a critical crossroads.

I have given you my thoughts on what Japan should do in order to assist in steering the Middle East region as a whole to greater stability, including various concrete proposals.

None of the tasks currently at hand will be easy, but Japan will be taking a sound, steady approach, always keeping our aspirations high as we work on practical means of implementation. On that note, I would like to conclude my remarks.

Muslim Entrepreneurs between India and the Gulf



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In recent years the role of wealthy entrepreneurs in Muslim political, religious and social life has been largely neglected. We reverse this trend by considering the practices and orientations of some Muslim businessmen from the state of Kerala in India. These are both Kerala and Gulf-based men who are at the forefront of India's post-liberalization economy, sharp innovators who have adopted the business and labor practices of global capitalism in both Kerala and the Gulf. Embodying the dream of success of all Kerala Muslims, these entrepreneurs have a very public presence. Ostensibly concerned with the 'upliftment' of the whole community, they are involved in community associations, orphanages, schools, trade organizations and everyday politics. Their orientation towards 'modernization' of social practices – in education, in particular – is intimately enmeshed with, on the one hand, an effort to produce a 'Muslim modernity' (where the main referent points are the Gulf and, more recently, Malaysia and Indonesia), and on the other the pursuit of particular business interests.

The role of Kerala middle class elites in the development of reform movements and political organizations is neither unusual nor a recent phenomenon. As among their Hindu counterparts, early 20th century orientations towards socio-religious

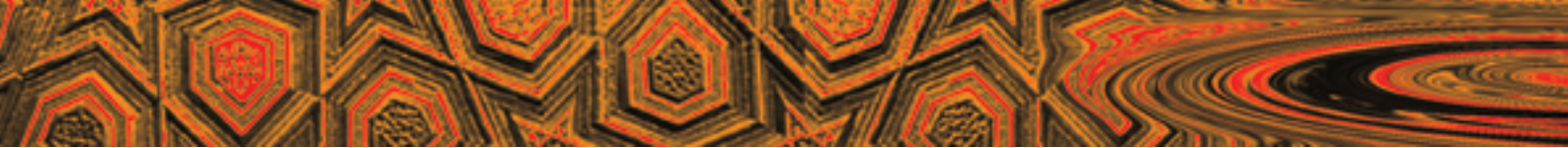
reform, modernization and progress found support especially among the educated Muslim middle-classes. We see many 'community leaders' – wealthy and substantially Anglophile traders/businessmen – enthusiastically embracing colonial-driven modernization and building 'modern' schools with the blessings of the colonial administration and the support of a growing reformist ulama.

But the conditions for modernist transformation among Muslims were significantly different from other communities. Muslim reformism had to deal with the aftermath of the 1921 Mappila rebellion from which the urban middle class, after initially supporting the Khilafat movement, eventually distanced itself. Among rural Muslims, the heartland of uprisings, the benefits of the colonial modernity embraced by the urban trading middle classes were far from apparent. British colonial rule was understood as the expression of a wider Euro-Christian attack against Islam stretching back to the Portuguese conquest. The bloody repression of the 1921 uprising did nothing but confirm that the British were out to rid Malabar¹ of Muslims and Islam. In reaction, rural Muslims distanced themselves from modern education, privileging Arabi-Malayalam over English, and even over written Malayalam. A militant distrust for 'British education' was further reinforced by the colonial policy of introducing of modern



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¹ Kerala Muslims' heartland.



education as a solution to the ‘Mappila problem.’ In the meantime, Islamic reformist ulama took on the banner of modern education and social reform, building schools where science was taught alongside religious subjects. For the ‘traditionalist’ ulama – in whose practices and orientations the majority of Kerala Muslims recognize themselves – generalized opposition to Islamic reformism was extended to a rejection of all forms of education promoted by the latter. In other words, outside the limited sphere of the educated urban middle classes and reformist ulama – for whom modern education increasingly stood for the whole project of modernization and reform – attempts to introduce ‘English’ education were seen with suspicion, or altogether opposed.

In the first half of the 20th century, Hindu middle classes had little problems in convincing their caste fellows of the links between western education, socio-religious reform and ‘progress’. Middle class Muslims had by contrast to walk a more rocky path to establishing ideological and political hegemony over the community. Almost 60 years on, in a state proud of its people’s full literacy, education remains the yardstick by which Muslim progress is measured and imagined. It is by presenting themselves as enlightened ‘educationalists’ and by promoting ‘modern education’ that contemporary entrepreneurs inscribe their specific business interests and practices in the rhetoric of ‘common good,’ legitimizing their claims to leadership in the wider community.

Contextualizing Kerala Muslim Businessmen

Kerala Muslim businessmen are neither reminiscent of the big-scale Indian entrepreneurs nor even of their close Tamil neighbors. Unlike the latter, they by no means all come from ‘good families’; but what we focus most on is relations with the community. While Tamil Hindu businessmen seem concerned with personal salvation and indulge in pursuit of Vedanta or holy-men, Kerala’s Muslim entrepreneurs have a strongly congregationalist focus and a sharp sense of duty towards the wider Muslim community, towards contemporary re-imaginings of the dar-ul-Islam. They feel themselves morally accountable to the wider community, responsible for its development,

and guided by a vision of what are the steps which need to be taken.

Contemporary Tamil leaders are abandoning traditional dynastic business and restructuring enterprises through Japanese or American business plans and management techniques. Their Kerala counterparts follow a similar path – they are enthusiastic supporters of the sharp labor practices of global capitalism – but they turn their back on wholesale adoption of ‘American’ styles and are instead searching for Islamic business models. This brings them into dialogue with contemporary global Islam in its reformist and modernist trends. It is their attempts to craft identities as ‘modern Muslims’ which most strongly flavors these men’s lives. Their preoccupations with how to shift the Muslim community away from practices or lifestyles considered ‘backward’ and towards modern Islam is what marks out the parameters of their life-goals. This brings them far closer to Malay entrepreneurs or to

Muslim entrepreneurs are deeply rooted in the public sphere and are committed to action within it. Religious obligations are taken as examples of Islam’s preoccupation with social responsibility, while reformists try to reshape obligations into more engaged forms

some Arab businessmen who are, indeed, often their patrons or partners.

While many Muslim businessmen have no direct political involvement, they all exercise considerable influence in the communi-

ty’s political and social life. They might be chided – or admired – for being behind-the-scenes ‘king makers’ who keep politicians in their pockets’ to forward their own business interests, but they are also praised for ‘caring about ordinary Muslims.’ We are not talking here about members of an ill-defined Muslim ‘middle class,’ but about a relatively small group of extremely wealthy men who have a prominent public presence and are recognized as ‘community leaders.’

Many Gulf-based entrepreneurs present their lives as ‘rags to riches’ tales, where ‘traditional’ Muslim skills of the bazaar – such as risk taking, hard work, familiarity with the politics of wasta (Arabic: favors, contacts) – are combined with the adoption of modern business techniques to achieve success. They thrive in the Gulf because they have an affinity to Arabs, but they also benefit from close links with Kerala politicians who support their investments in the state. These men’s ‘rags to riches’ tales set them as iconic figures for all Muslims, an image they are keen to cultivate. But they are



not distant heroes: any Muslim will know someone – a friend or relative – who works for them and has a story to tell. And here a degree of accountability comes in. These men are subject to wider public criticisms. As we might expect, the established middle classes commonly claim that such men are to be discounted as nouveaux riche with no family history. They are also sometimes portrayed simply as men who have extended the slippery rules of business beyond the usual rule-bending which is taken for granted as necessary common practice by all business people. And those who are employed by them might have different – and negative – experiences of their apparent enlightened benevolence.

Kerala-based businessmen are of course even more visible and prominent in local public life than their Gulf-based counterparts. While the latter make major donations and initiate grand projects, the Kerala-based men are often those who implement the grand projects on the ground, working continually in the public sphere to shape projects of change and reform. These local entrepreneurs assert continuity between their families' past involvement in the bazaar economy and their present wealth. But there is also rupture: foreseeing the decline of bazaar-based trade, they moved into entirely novel businesses where they introduced new – and extremely controversial for Kerala – labor and production practices.

Business Interests and Community 'Upliftment'

The relationship between private interests and public good, the advancement of business while apparently working for the 'upliftment' of the whole community, unfolds in these entrepreneurs' efforts to link the need for education to reform and future progress of Kerala Muslims. And they don't just talk about education: they promote and build schools, colleges and universities in both Kerala and the Gulf through various private trusts or charitable organizations. If necessary, funds are raised by appealing to the sensitivities of specific Muslim audiences in both Gulf and Kerala. Potential Arab donors are presented with the chance of bestowing benevolent generosity to support 'backward' Muslims' development and participating in the renaissance of

Islamic culture and values. Kerala Muslims – especially Gulf migrants – are offered the chance of 'doing good for the community', and also, as many of these educational institutions charge hefty fees, with a very attractive investment opportunity.

Migration and Gulf business-led investment has resulted in the development – as among all other communities – of private services which are Muslim-owned and Muslim-run, and which then come to be perceived as specifically Muslim and to attract a Muslim clientele. There is an often-expressed argument that such investment is necessary in order to encourage Muslims towards development. This in turn has also been reinforced by political events: locally, the emergence of strong and successful Hindu and Christian organizations which have built a whole string of 'community-owned' services; nationally, the rise of Hindu nationalism; and internationally, widespread Islamophobia, all contributing to a

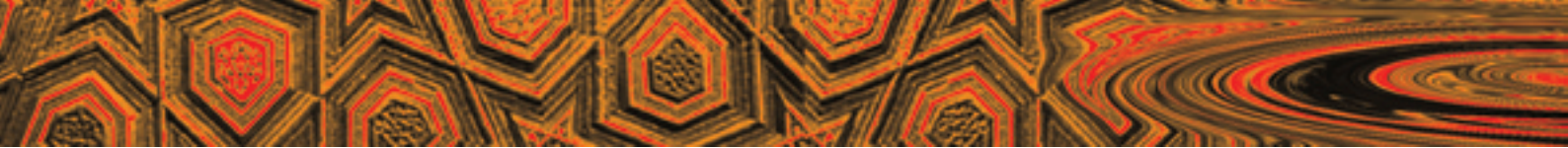
While Tamil Hindu businessmen seem concerned with personal salvation and indulge in pursuit of Vedanta or holy-men, Kerala's Muslim entrepreneurs have a strongly congregationalist focus and a sharp sense of duty towards the wider Muslim community

sense being a 'community under siege' which needs to stick together and be self-reliant. Muslims, it is argued, need to build networks of professionals, skilled workers and businessmen to strengthen the community and to

provide economic and political leadership.

This long-term project, fostered by many wealthy businessmen, has a much wider objective – that of participating in a worldwide renaissance of Islamic 'moral values' and culture. An Islamic renaissance, it is popularly argued, would not just rid Kerala of the 'social problems' brought to bear on Muslim lives by globalization, but also set the basis for counteracting 'American imperialism.' While a pan-Islamic orientation is not new, it has been significantly strengthened in the last 30 years. Gulf migration brought thousands of Kerala Muslims close to what they consider as the heartland of Islam and exposed them to life in Muslim-majority countries. This has renewed a sense of participation in the wider dar-ul-Islam – which is, of course, open to very different interpretations and experiences on the opposite shores of the Indian Ocean – while also tapping into the business opportunities it opened up.

Among Kerala Muslims, the Gulf stands for the successful blending of Islam with cutting edge technologies and



modern business practices. Regardless of individual migrants' experiences, Dubai's skyscrapers, Kuwait's sprawling oil refineries or Riyadh's opulent neighborhoods stand for a world where Muslims are both wealthy and self-confident, a stark contrast to the circumstances of the many Muslims in India. The Gulf demonstrates that scientific or technological knowledge need not be in contradiction to Islam, but can be mastered to generate wealth for the well being of Muslims and to strengthen Islam. Gulf-based Malayali businessmen have been successful not just because they have been lucky to be in the right time in the right place, but also because they have combined an inclination for risk taking in business and an affinity to the politics of Arab *wasta*, with modern forms of management learnt in the Gulf. Their experience suggests that entering and succeeding in the global labor market requires more than 'traditional' business acumen: it demands scientific skills and familiarity with new technologies such as those taught in emerging Muslim schools and colleges.

*Many Gulf-based entrepreneurs present their lives as 'rags to riches' tales, where 'traditional' Muslim skills of the bazaar – such as risk taking, hard work, familiarity with *wasta* – are combined with the adoption of modern business techniques to achieve success*

In the practices of Kerala Muslim businessmen and entrepreneurs we see some tensions between old and new business styles. But 'know-who' has not been abandoned for 'know-how.' Because of the layering of services and the complexity of contemporary business, where flexibility and sub-sub-contracting are the norm, contacts are undoubtedly important and 'know-how' is often inseparable from 'know-who.' In networking across the Gulf, Malayali Muslims have a great advantage, because of both Arabic language facility and their long-time contacts and familiarity with the region. And entrepreneurship can stand at the core of a Muslim identity and contemporary reformulations of Muslim morality. Here it allows – actually encourages – ideas of a productive interplay between business and morality, where material progress and religious reform become intertwined indexes of modernity.

Muslim entrepreneurs are deeply rooted in the public sphere and are committed to action within it. Religious obligations are taken as examples of Islam's preoccupation with social responsibility, while reformists try to reshape

obligations into more engaged forms. When successful Muslims plan what needs to be done for the 'common good' in their own community, education becomes the core focus of charitable and activist energies. They believe in the possibility of a win-win situation: the uplift of the entire Muslim community and access to a flexible and qualified workforce shaped into global standards. But the Muslim community is outstripped every time by the achievements of Kerala's Christians and Hindus. The Christian community and its educational institutions are felt to offer both top class education and necessary training in rational and systematic lifestyles. But any simple emulation of such institutions is, for contemporary community leaders, no longer feasible. The early 20th

century Muslim elite were, like the Hindu elites of the time, happy to adopt practices they drew from both colonial and local Christian modern. Today, Kerala's intimate and longstanding links to the Arab Gulf provide a direct example of the existence of another modern – a properly Islamic modern, a modern stripped of what are perceived as the excesses of Western modernity.

Ultimately, then, public sphere activity focused on education has a dual effect. It satisfies the moral and communitarian requirements of Muslim elites; but we take as an equally motivating factor the aim of producing the sort of workforce that these men feel they need: young men (sic) who are flexible, educated and equally competent in English and Arabic speaking environments. And yet, just as in the early part of the 20th century, middle class elite hegemonic projects might prove to be elusive. Islamist organizations have been extremely vociferous in their critique of globalization which contemporary entrepreneurs have associated themselves with. This far-reaching moral critique of public and private life – which increasingly targets also the not-so-Islamic behavior of many Arab Muslims – has led some Islamist organizations to declare full support to the left parties during the recent assembly elections, contributing to the defeat of many candidates closely associated to leading entrepreneurs.

(Another version of this article appeared in the ISIM Review 19, 2007, pp. 8-9, published by the International Institute for the Study of Islam in the Modern World, The Netherlands.)

India's Slippery Ties with Iran

The Indo-Iranian relationship is making headlines for all the wrong reasons. What was supposed to be a long-term partnership in energy security is slowly transforming into a problem for both countries. A host of bilateral as well as external factors are preventing India and Iran from setting aside controversial political issues and focusing on the economic aspects of the energy ties.

Both the energy-related deals with Iran appear to have hit major obstacles that can only be resolved through high-level political understanding between the two countries.

As part of its desire to secure long-term energy supplies, in June 2005, India concluded an agreement with Iran for the supply of five million tons of LNG annually for a 25-year period. Subsequently India expressed a desire to increase the quantity by another 2.5 million tons per year. When the original agreement was signed, Iran agreed to supply LNG at \$3.215 per million British thermal units (mBtu). Subsequently, however, citing the rising price of oil, Iran has been demanding a higher price for the original agreement.

The second issue is the 2,700-kilometer-long Iran-Pakistan-India pipeline. Despite the enthusiasm of all the three countries, the project faces major opposition from the US. The strategic and long-term nature of the project works against the US desire to contain and even isolate Iran regionally and economically. While a number of European powers, Russia and China were able to ignore the oil-related sanctions of the US, including the Iran Libya Sanctions Act of 1996 (ILSA), India has come under intense pressure over the pipeline project. The ILSA explicitly prohibits “investment of more than \$20 million in one year in Iran’s energy sector.”¹ According to US admissions, since 1999 over \$11.2 billion has been invested in the Iranian oil industry by various European and Japanese companies.²

Washington is also linking the pipeline to the Indo-US civilian nuclear deal formally concluded during the visit of President George W. Bush in March 2006. In May, seven

US Congressmen warned India that going ahead with the pipeline project could not only jeopardize the nuclear deal but also affect overall Indo-US relations. In a letter to Prime Minister Manmohan Singh, they issued a blunt warning:

“India’s pursuit of closer relations with Iran appears to be inconsistent with the letter and spirit of the July 18th, 2005 announcement by you and President Bush of the establishment of a ‘global partnership’ between our two countries. It also is contrary to the pledge that India ‘would play a leading role in international efforts to prevent the proliferation of weapons of mass destruction, including nuclear, chemical, biological and radiological weapons’.”³

Much of the current problems between New Delhi and Tehran could be directly linked to the controversy surrounding Iran’s nuclear ambitions and gradual changes in India’s attitude towards a possible nuclear power in its neighborhood. So long as the issue remained within the International Atomic Energy Commission (IAEA), India could adopt a neutral stand and urge Iran to resolve ‘its differences’ within the IAEA. However, when the nuclear watchdog decided to refer the matter to the United Nations Security Council, India could not remain a fence sitter.

In September 2005, despite the friendly noises towards Tehran, at

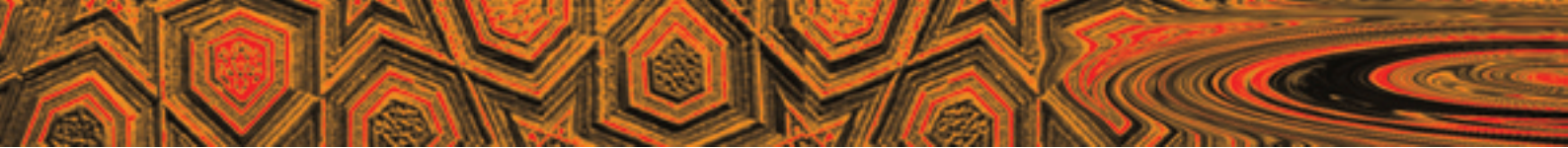


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1 CRS Report for Congress, The Iran Libya Sanctions Act (ILSA), October 11, 2006, p.2

2 Ibid., p.4

3 For the full text of the letter, see: The Hindu, May 5, 2007



the very last moment, New Delhi sided with the US. It repeated this stand in February 2006. These two negative votes against Iran appeared to have hardened the Iranian position regarding its energy deals with India. Despite numerous meetings between the two sides, lack of political understanding continues to undermine both the energy deals that India is currently pursuing with Iran.

At the same time, if one were to take a long-term view of the Indo-Iranian ties, the picture is rather different. Iran is important to India but

less critical than some of its Arab neighbors. For long, Shah's Iran was not friendly towards India. The Cold War rhetoric, its close proximity with the US and support for Pakistan, meant that Iran did not figure prominently in India's Middle East policy. It was only towards the dying days of monarchy that Iran began to show greater interest in India.

This pattern continued following the Islamic revolution in Iran. Like the countries of the Gulf region, India had great misgivings about the ayatollahs and their radicalism. The idea of exporting radical ideology to other parts of the world caused unease in India. With its heterogeneous population, radicalism was the last thing India needed.

So when Iraq invaded Iran in 1980, India's choices were clear. It never openly identified Iraq as the aggressor and, in 1983, went to the extent of hosting the summit meeting of the Non-aligned Movement originally slated for Baghdad. It found common cause with the secular Baathist ideology and economically benefited from oil supplies from Iraq.

It was only after the Kuwait crisis and the regional isolation of Saddam Hussein that India began to look to Iran seriously. By that time, Iran also had undergone significant changes. The supreme leader Ayatollah Khomeini had passed away and the more pragmatic Hashemi Rafsanjani was steering Iran to moderation and was actively seeking reconciliation with the outside world. Relations between Iran and Saudi Arabia were back on track, and Rafsanjani's successor Mohammed Khatami signaled greater accommodation and actively sought "dialogue among civilizations" with the outside world.

Much of the problems between New Delhi and Tehran could be linked to the controversy surrounding Iran's nuclear ambitions and gradual changes in India's attitude towards a possible nuclear power in its neighborhood

In short, from the early 1990s the isolation phase of Iran was over and it was pursuing a path of accommodation and dialogue with its neighbors. It was under this new political reality that India sought closer ties with Tehran. Both the Congress party and Bharatiya Janata Party actively pursued closer ties with Iran. While Rafsanjani and Khatami visited India, Prime Ministers Narasimha Rao and Atal Behari Vajpayee were hosted by Tehran.

The row over nuclear ambitions and the election of

Mahmoud Ahmadinejad as President once again upset the balance. India is now facing an Iran that is not only more assertive of its regional importance but also adopting a belligerent attitude towards its neighbors and adversaries. Ahmadinejad's remarks calling for the destruction of Israel, a state with which New Delhi has closer military relations, was one such example. The Arab neighbors of Iran are extremely uneasy about the ongoing tensions over the nuclear issue and Tehran's shrill rhetoric against the US.

At the regional level countries such as Saudi Arabia, the UAE and Qatar are far more important to India than Iran. Not only are these countries major suppliers of oil and gas, but a sizeable Indian population is gainfully employed there as well. As the table indicates, the bilateral trade between India and Iran is important but not substantial. Indeed, the Indo-Israeli trade is higher than the Indo-Iranian trade. For example, during 2005-06, the Indo-Iranian trade stood at \$1.8 billion whereas India's trade with Israel crossed the \$2.5 billion mark.

The US is the new factor in India's Middle East policy. Moving away from the Cold War politics, India had taken a strategic decision to seek and forge closer ties with Washington and the civilian nuclear deal is part of this new Indian path. This would require India to make some concessions and modifications in its overall Middle East policy, especially towards Iran.

The Indo-Iranian ties therefore have been intrinsically linked to Iran-Arab relations and the cordiality with which Iran handles its relations and problems with the outside world, especially the US. Any return to the rhetoric of the 1980s and a belligerent approach towards the US in particular, would significantly undermine Indo-Iranian ties.



GRC PARTNERSHIP WITH ASIAN INSTITUTIONS

Collaboration with think-tanks and research organizations is a vital part of the Gulf Research Center’s mandate. The cooperation agreements that the center has signed with a number of institutions worldwide aim to support each other in the areas of research, policy facilitation and implementation of long-term conditions for peace, security and sustainable development.

In partnering institutions of interest, we hope to work in pursuit of creating greater national, regional and international awareness on issues pertaining to security and stability in the Gulf region and beyond.

The areas of cooperation encompass joint research; convening conferences; facilitating exchange of scholars; translation, re-publication and distribution of selected publications; as well as sharing of relevant databases.

The following is a list of Asian institutions that the GRC either has a formal cooperation agreement with or has entered into a working relationship in mutually agreed areas.

May 1

The S. Rajaratnam School of International Studies (RSIS), an autonomous graduate school of Nanyang Technological University in Singapore, and the GRC signed an MoU to work together on issues pertaining to security and stability in the Gulf and Asia-Pacific regions.



Originally started as the Institute of Defence and Strategic Studies, which was established in 1996,

it was inaugurated as the RSIS on January 1, 2007. Besides doing research in subjects pertaining to security, defense, international affairs and diplomacy, the RSIS also teaches postgraduate programs in strategic studies, international relations, and international political economy. The school also organizes lectures, conferences and seminars that are aimed at helping policymakers develop comprehensive approaches to strategic thinking.

February 15

The agreement with JIME Center, The Institute of Energy Economics, Japan (JIME-IEEJ), encourages working

together in pursuit of greater national, regional and international awareness on issues pertaining to security and stability in the Gulf region and Japan. The two organizations will collaborate in the areas of research, policy facilitation and implementation.

JIME-IEEJ is the only non-profit, private research institute in Japan specializing in Middle Eastern economies and politics in particular and worldwide energy issues in general, with three core groups focusing on the Gulf Cooperation Council countries, as well as Iraq and Iran.

February 1



The GRC signed a memorandum of understanding to be the “Lead Knowledge Partner” for the Arab-Asian Dialogue or-

ganized by the Young Arab Leaders on April 27-28 in Singapore.

As part of the agreement, the GRC provided concept papers for some of the plenary sessions, summarized topics to be debated, provided a list of questions on each of the sessions for use by the respective moderators, and provided relevant background literature and documentation services.

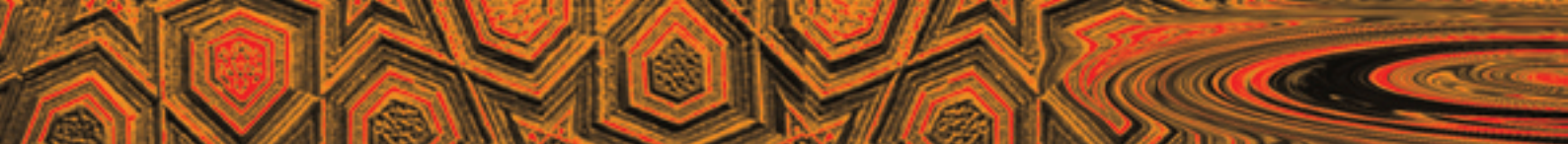


The Young Arab Leaders is a network of Arab men and women who have seen the power of action in their own lives, reached unprecedented levels of success for their age, are positive and can see beyond today’s difficulties to a vision of

a prosperous Arab future. These leaders are currently in prominent positions of responsibility and are destined for extraordinary achievement, and they believe that their efforts today can have an impact on their communities, countries and the region as a whole.

January 24

The Shanghai Institute of International Studies (SIIS) signed a MoU with the GRC to pursue the creation



of greater national, regional and international awareness on issues pertaining to security and stability in the Gulf region, China and the broader Asian region.

The SIIS is a leading Chinese think tank dedicated to advancing China's knowledge of international affairs, improving its foreign policy making as well as facilitating Shanghai's opening-up and modernization processes. It is a multi-disciplinary research institute with 10 country and area studies departments and five centers of issue studies.

PROMINENT ASIAN VISITORS TO THE GRC

April 19



The Director-General of Confederation of Indian Industry (CII) Lt. Gen. (Retd.) S.S. Mehta and CII Principal Advisor A.C. Patankar discussed the scope for cooperation between the two institutions,

especially in trying to promote Gulf-India economic engagement by co-hosting joint workshops and conducting studies.

March 11

Prof. Xiaojie Xu, Director of the Institute of Overseas Investment at the China National Petroleum Corporation's Research Academy of Economics and Technology in Beijing, and the Chief Professor of the Institute of Geopolitics and Energy Economics, East China Normal University in Shanghai, discussed ways of economically and strategically improving GCC-China relations.

February 8

An Indian delegation comprising Indian Navy officers headed by the Chief of Naval Staff, Admiral Sureesh Mehta, and accompanied by Consul-General of India Venu Rajamony, held discussions on the Gulf and



Indian security environment as well as Indian Navy capabilities.

February 7

The Managing Director of Japan Institute of Overseas Investment, Yutaka Yamada, and Sumiko Teranaka, Senior Analyst, Research and Analysis Department, discussed issues related to Iran's political, economic and security dimensions.

January 24



A four-member delegation from the Shanghai Institute of International Studies held discussions with the GRC on the current events in the Gulf and on Gulf-Asia-China relations. The two institutes signed a memorandum of understanding to further mutually-beneficial academic interests. The delegation comprised Prof. Yang Jiemin, Vice-President and Senior Fellow; Prof. Li Weijian, Director and Senior Fellow of Department of Middle East Studies (DMES); Ye Qing, Deputy Director, DMES; and Dr. Yu Hongyuan, Deputy Director and Senior Fellow of International Organization and Law Studies.

January 17



Dr. Koichiro Tanaka, Director, JIME Center-The Institute of Energy Economics, Japan, held discussions about possible cooperation with the GRC.



Gulf Research Center

Knowledge for All

Based in Dubai, UAE, the Gulf Research Center (GRC) began its activity in 2000 as a privately-funded, non-partisan think tank, education provider and consultancy specializing in the Gulf region. The GRC produces recognized research from a Gulf perspective, redressing the current imbalance in Gulf area studies, where regional opinions and interests are underrepresented. The GRC believes that the Gulf Cooperation Council has transcended the initial reasons for its establishment, to become a fundamental right of its citizens in the development of the region. The GRC seeks to further this belief by being an institution of distinction and innovative research that advances different aspects of development to ultimately benefit the people of the region.

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