

**THE UNITED STATES, JAPAN, AND
THE MIDDLE EAST**



**Edited by
John Calabrese**



**THE MIDDLE EAST INSTITUTE
WASHINGTON, DC**

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Roscoe S. Suddarth
President
Middle East Institute

INTRODUCTION

John Calabrese

On March 13, 1997 the Middle East Institute (MEI) held a conference on "The United States, Japan and the Middle East" at the National Press Club in Washington. The chapters in this volume were prepared by the conference participants.

MEI convened its first conference on this subject in June 1990. Since that time, developments have occurred whose implications for the Middle East, and for those countries with interests in the region, are both numerous and far-reaching. Some of these were abrupt and dramatic events like Iraq's invasion of Kuwait and the collapse of the Soviet Union. Others were localized manifestations of complex region-wide phenomena, like the rise of Islamism in Algeria and that country's descent into civil war.

To be sure, not all of the recent changes that have taken place in the Middle East, nor those external influences upon the region, have been unwelcome. The Madrid Peace Conference and Oslo Accords set in motion a process aimed at a comprehensive settlement of the Arab-Israeli conflict. The end of the East-West struggle severed the patron-client relationships that had complicated Middle East politics. The United Nations coalition confronted and rolled back Iraq's aggression against Kuwait in Operation Desert Storm.

Nevertheless, peace and stability in the Middle East remain elusive. The Arab-Israeli peace process has been punctuated by lengthy stalemates, spates of violence, and periodic suspensions of dialogue. Saddam Hussein was neither ousted nor chastened by Iraq's military defeat. The regime in Tehran has retained its grip on power and, by many accounts, continues to pose a threat to its neighbors.

These persistent trends and recent transformations have required the United States and Japan to reassess their roles in, and adjust their policies toward the Middle East. The chapters contained in this volume address several important questions. What are the challenges which the United States and Japan face in promoting and protecting their interests in the Middle East? What means have Washington and Tokyo employed—individually and jointly—in order to adapt to, and foster, change in the region? On what issues and for which reasons do American and Japanese views regarding the Middle East correspond or diverge?

The contributions of the eight authors are by no means identical. In the first two chapters, Richard Armitage and Yoshio Hatano review the evolution of Japan's role in the Middle East. Armitage focuses on the recurring dilemmas which Japan has faced in

responding to the region's challenges. Hatano emphasizes the growth in Japanese understanding of, and experience in, the Middle East.

The second pair of chapters, written by Yoshiaki Hatanaka and James Placke, respectively, deals with OPEC and global energy supplies. Hatanaka cites evidence of Japan's continued high degree of dependence on Persian Gulf energy supplies, and addresses the implications of rising energy interdependence between East Asia as a whole and the Gulf. Placke furnishes proof of declining US dependence on Gulf energy supplies, and considers the impact this may have on the US ability to remain the guarantor of the security of Saudi Arabia and the other GCC states.

The next two chapters treat political and security issues in the Gulf. Anthony Cordesman provides a comprehensive study of the domestic and regional sources of insecurity in the Gulf. Kazuo Takahashi devotes special attention to the manifold domestic problems faced by the GCC states, and highlights the potential political consequences of deteriorating economic conditions and rising demographic pressures.

The final two chapters concern the Arab-Israeli peace process. William Quandt, in examining the US role, considers the advantages and shortcomings of the American tendency to monopolize the peace process and to avoid injecting substantive ideas into it. Seiichiro Noboru focuses on the motivations and the means by which Japan has become a significant partner in the peace process.

Clearly, then, these eight chapters provide different perspectives and emphases. Yet they also develop a number of common themes. One recurring theme pertains to the Middle East itself. On this subject, most of the authors agree: the domestic challenges facing the countries of the region are as troubling as the threats posed by individual Middle Eastern states to their neighbors.

A second set of common themes concerns the role of Japan in the Middle East. The authors note that, over the years, pressures upon, and expectations for, Japan to play a more active role in the Middle East have steadily risen. They point out that Japanese understanding of, and expertise in, the region have improved. They argue that Japan is irrevocably committed to the Middle East, where it deploys a wide array of diplomatic and economic tools.

The authors develop a third set of common themes regarding the structure and limits of cooperation between the United States and Japan in the Middle East. They note that US and Japanese interests substantially overlap, but do not coincide. They observe that the asymmetry of power which exists between the US and Japan to a large extent determines the division of labor between them. They argue that, with respect to the peace process, the US and Japan play complementary roles—the former serving as principal peacemaker while the latter lends diplomatic and other support to the parties concerned. They suggest that the most contentious subject—policy toward Iran—is an issue over which neither Washington nor Tokyo is likely to persuade the other to embrace its views.

The United States and Japan have a vital stake in the pursuit of peace and stability in the Middle East. Although neither their interests nor the nature and extent of their involvement in the region is identical, the United States and Japan are, and must remain, partners in these endeavors.

US-JAPAN RELATIONS IN THE MIDDLE EAST

Richard L. Armitage

The 1973 oil "shock" made Tokyo realize that unquestioning dependence on policy guidance from Washington endangered the flow of Middle Eastern oil upon which Japan depends. Today, Tokyo no longer relies solely on Washington to guide its policy toward the Middle East, as illustrated by differences between the US and Japan concerning relations with Iran.

Over the past two decades, Japan's policy toward the Middle East has been largely reactive. Whenever threats of an oil embargo have arisen, Japan has exercised care to assure the Arab World of its friendship. When 53 US diplomats were taken as hostages by Iran, Japan reluctantly acceded to an oil embargo, but only after Washington applied *gaiatsu* (foreign pressure). The 1990-91 Gulf crisis once again demonstrated this propensity. During the crisis, Japan agreed to make a financial and logistical contribution to the coalition effort, but not until President George Bush urged Prime Minister Toshiki Kaifu to do so.

Nevertheless, it is evident that Japan's policy toward the Middle East has evolved. Especially since the Persian Gulf War, Japan's foreign policy elite has attempted to formulate a diplomatic strategy for the Middle East, and not rely entirely on reactive measures during crises.

The History of Japan's Involvement in the Middle East

Japan has few historical or cultural connections with the Middle East. Its paramount concern in the region is access to oil while its preeminent diplomatic tool is official development assistance. With no short-term prospect of escaping dependence on Gulf oil, Japan has struggled to insulate its energy interests from the effects of conflict and instability in the region. Japan's ultimately unsuccessful effort to complete construction of the Iranian petrochemical complex at Bandar Abbas (now Bandar Khomeini)—its showcase investment project in the Gulf—illustrates this predicament. Iraqi attacks on the installation during the Iran-Iraq War led the Mitsui company to

withdraw from the project. As a result, Japan's business sector and government sustained sizable financial losses.

The 1970s

Until 1973, Tokyo had regarded the major oil companies as the principal channels of communication with the Middle East. Japanese officials did not regard direct diplomatic contacts with the region's leaders to be necessary. However, the outbreak of the 1973 Arab-Israeli War prompted a change in this approach. To ensure continued oil supplies and exemption from punishment by Arab oil producers, the Japanese government sought the status of a "friendly country." Tokyo distanced itself from US policy, causing some Japanese officials to worry that this would lead to a diplomatic rift with Washington. When US policy makers questioned this policy, officials in Tokyo emphasized Japan's energy vulnerability.

During the 1973 crisis, Tokyo assumed a "pro-Arab" stance, but did not break off relations with Israel. During Vice Premier Takeo Miki's December 1973 visit to the region, he offered economic assistance in return for Arab promises not to cut oil supplies. Egyptian President Anwar el-Sadat explicitly requested that Japan terminate or suspend economic ties with Israel. But, Mr. Miki responded vaguely, stating only that Japan would study the request. These diplomatic efforts paid off for Japan. On December 25, 1973 the Organization of Arab Petroleum Exporting Countries (OAPEC) recognized Japan, along with the Philippines and Belgium, as "friendly nations." While continuing the embargo against the US and the Netherlands, OAPEC canceled the five percent production cutback scheduled for application against Japan, and set a ten percent increase instead.

The success of Japan's Middle East diplomacy, however, was short-lived. As the 1970s progressed, Tokyo was forced to reassess and revise its policy. Japanese officials sought ways to meet the minimal requirements of Arab "confrontation states" and to preserve good relations with Iran. This became increasingly difficult, given the policies which the United States adopted and urged its allies to embrace.

During the 1970s Japan focused on the Palestinian issue. Tokyo regarded tackling this subject to be an essential part of its effort to promote peace and stability in the region. In 1977 Japan permitted the establishment of a PLO office in Tokyo, and in 1981 granted a visa to PLO Chairman Yasser Arafat to visit the country for the first time. Although a Japanese business association, not the government, extended the invitation to Mr. Arafat, Prime Minister Zenko Suzuki and Diet members met unofficially with him. This direct communication with the PLO placed Tokyo ahead of, if not at odds with, Washington, which did not approve a visit to the United States by Mr. Arafat until 1989.

The 1979 Iran hostage crisis placed Japan in the precarious position of trying to protect its national interests without disturbing its alliance with the United States. Japan sought to remain on good terms with Iran in order to protect three interests: access to Iranian oil, which served as a hedge against a possible future Arab embargo; the massive investment in the Bandar Abbas petrochemical complex; and continued access to the lucrative Iranian export market. However, when, in order to protect these interests, Japan adopted a "neutral" position in response to Washington's call for sanctions against Iran, US policy makers were furious. The rush by Japanese oil companies to acquire

embargoed Iranian oil—for which they paid nearly twice the market price—further strained US-Japan relations. To assuage US criticism, Japan eventually suspended purchases of Iranian oil. Yet, this did not mollify US officials.

The 1980s

The outbreak of the Iran-Iraq War in 1980 did not induce the panic in Japan over energy supplies that had occurred during the 1973 crisis. In the intervening years, Japan had built large petroleum stockpiles (90-100 days) and diversified its sources of oil, and thus was better prepared to withstand potential supply disruptions. Nevertheless, the Iran-Iraq conflict posed problems for Japan. First, as mentioned earlier, Iraqi attacks on the Bandar Abbas (Khomeini) complex and the eventual withdrawal of Japanese companies from the project, sparked political controversy and imposed a major financial loss on Japan. Second, Tokyo faced continued pressure from the US to curtail economic ties with Iran.

In 1983 Foreign Minister Shintaro Abe launched a diplomatic initiative to convince Iran and Iraq to end their hostilities. Abe's efforts were welcomed by the international community, but did not produce concrete results. Four years later, during the "tanker war," the thorny issue of Japan's "responsibility" in the Gulf reemerged. Because Japan shipped about 55 percent of its imported oil through the Hormuz Strait, the US wanted Tokyo to share the burden of protecting tanker traffic by sending minesweeping vessels to the Gulf. In a September 21, 1987 meeting, President Ronald Reagan extracted a pledge from Prime Minister Yasuhiro Nakasone to provide an answer to this request before the expiration of the latter's term in office.

On October 7, 1987, following intense debate within the government, Chief Cabinet Secretary Masaharu Gotoda announced Japan's decision. Rather than send minesweepers, Tokyo offered assistance to the Persian Gulf countries which included navigational radar equipment and untied loans for development projects. The most important part of this pledge was a \$10 million Decca electronic lighthouse system which enables vessels to determine their precise locations, thus avoiding mine-filled areas. Not until July 1988, however, were negotiations concluded with Kuwait and Saudi Arabia regarding installation of the system.

Japan's assistance package also included a \$10 million pledge to finance UN mediation efforts to end the Iraq-Iran conflict, as well as \$200 million for Oman and \$300 million for Jordan in low-interest Export-Import Bank loans in support of various development projects. In addition, Mr. Gotoda announced that Tokyo would increase its share of the cost of maintaining the American military presence in Japan, thereby compensating the United States for the cost of naval escort and mine-sweeping operations in the Gulf.

In order not to jeopardize its oil interests in the Middle East, Japan adhered to the Arab trade boycott against Israel. Washington expressed its preference that Japan be more friendly toward Israel and less friendly toward the "rogue" states of the Middle East. Naturally, Israeli officials viewed Tokyo's policy as "unfair" and desired an "even-handed" approach, including normalization of trade relations. Yet, not until the end of the decade did Japanese relations with Israel improve.

Foreign Minister Sosuke Uno's June 1988 trip to the region was a watershed in Japan's Middle East diplomacy. Mr. Uno's tour of the area included a stop in Israel,

the first such visit by a Japanese cabinet minister. This set a precedent for future exchanges of official visits. Moreover, it sent a signal to the Japanese private sector that Israel was "open for business." Within five years, trade between Japan and Israel tripled. On December 14, 1988—only hours after the US decision to open a dialogue with the PLO—Foreign Minister Uno requested a meeting with the PLO representative to Japan, Mr. Baker Abdul Munem. During that meeting, Mr. Uno applauded Yasser Arafat's decision to recognize Israel's existence and renounce terrorism. Thus, US and Japanese positions on the Arab-Israeli dispute shifted into closer alignment.

Recent Developments in Japan's Involvement in the Middle East

The Gulf War

As in previous Middle East conflicts, Iraq's invasion of Kuwait presented Japan with a serious dilemma. Should Tokyo support the US embargo against Iraq, thereby risking another oil shock? Or should Tokyo continue to trade with Iraq in order to protect its economic interests? These questions were answered in early August 1990, when President Bush called on Prime Minister Kaifu to support Washington in the stand-off with Iraq. Mr. Kaifu acceded to an immediate ban on Japanese oil imports from Iraq and Kuwait, and halted all other commercial relations with Iraq. Tokyo adopted this position at a cost, for Iraq had planned to repay debts to Japan (of about \$5 billion) with oil shipments.

Apart from the debt repayment issue, Japan was not placed in great jeopardy by the disruption of oil flows from Iraq and Kuwait. Stockpiles provided a cushion. In addition, Tokyo had cultivated non-Arab oil suppliers to reduce Japan's vulnerability. Japan's reasonably successful energy conservation and diversification strategies also mitigated the effects of the cut-off.

Japanese officials, eager to maintain Tokyo's image of independence, made it clear to the press that Washington's *gaiatsu* had not dictated their decision to join the ban on Iraqi oil. However, the American public and Congress tended to regard Japan's response to the Gulf crisis as dilatory, and questioned Tokyo's intentions. As the crisis progressed, Tokyo's vacillation contributed further to US-Japanese friction.

Following heated debate in Japan and pressure from Washington, Tokyo initially agreed to provide \$2 billion in support of the military effort against Iraq, and later pledged an additional \$9 billion as well as military transport planes to help ferry refugees from Jordan. The Japanese media, however, portrayed the conflict as "America's war," thereby undercutting the government's efforts to build and sustain a consensus. engendered further criticism by the United States. As of December 1990, US Treasury officials had received only one-third of the \$2 billion initial pledge, and by the end of January 1991, not quite half. At the end of March 1991, during a meeting with President Bush and Secretary of State James Baker, Japanese Foreign Minister Taro Nakayama announced that Japan would immediately release \$5.7 billion of the promised \$9 billion, with the remainder to follow within weeks. Japan also pledged to support post-war efforts, including expanding ties with Israel and helping resolve disputes in Asia.

Following the Gulf War, Japan assisted those countries in the region which were adversely affected by the conflict. For example, Tokyo contributed \$60 million to international organizations such as the Office of the United Nations Disaster Relief Coordinator, the International Committee of the Red Cross and the International Organization for Migration.

The Middle East Peace Process

Over the years, the American security umbrella had not only allowed Japan to develop its economy, but had helped to reinforce a narrow conception of "self-defense" by Japanese. More recently, Washington's demands that Tokyo play a larger role in world affairs served as an important catalyst for the domestic Japanese debate regarding this subject. As already shown, specific requests by Washington for Japan to assume international responsibilities or obligations have pertained to the Middle East. Japan's support for the Middle East peace process exemplifies Japan's commitment to engage more actively in external affairs, and US encouragement of these efforts.

At the 1991 Madrid peace talks, Japan participated in discussions covering arms control, security, water resources, refugees, environment, economic development and other subjects aimed at confidence-building among the parties. In April 1991, Prime Minister Kaifu finally denounced the Arab trade boycott as an impediment to free commerce. Not coincidentally, later that month, three Japanese automotive manufacturers—Toyota, Nissan and Mazda—announced that they would cancel their trade embargo with Israel and begin direct exports of vehicles later that year. In May 1991, the Export-Import Bank of Japan began extending letters of credit for bilateral transactions with Israel. Within one year of Operation Desert Storm, Israel became Japan's sixth largest export market, ranked just behind Turkey.

In September 1995, as part of an overall intensification of Japanese official visits to the Middle East, Prime Minister Tomiichi Murayama became the first Japanese head of government to travel to Israel and Syria. During his tour of the region, Mr. Murayama also met with Yasser Arafat, the first meeting between Mr. Arafat and a Japanese premier in six years.

While visiting the Middle East, the prime minister announced a substantial economic aid package aimed at stabilizing the region and aiding the peace process. This included new pledges of aid to the Palestinian National Authority. Jordan likewise received special attention. Japanese officials believe that Jordan is a key to peace in the region and that the Kingdom is a force for moderation. Between 1990 and 1994, Japan's aid to Jordan was \$855 million, or 40 percent of all external aid to Jordan.

In Israel, Prime Minister Murayama informed Prime Minister Yitzhak Rabin that Japan would dispatch observers to monitor the 1996 Palestinian Council elections, and would send a contingent of Japanese troops to join the UN peacekeeping mission in the Golan Heights. On the economic front, Mr. Murayama told Mr. Rabin that Japan wished to establish a Japan External Trade Organization (JETRO) office in Israel to promote private sector investment there.

The Containment of Iran

Washington has encouraged and endorsed Japan's efforts in support of the peace process. However, there are other aspects of Japan's Middle East diplomacy to which

Washington has strongly objected. Perhaps the most contentious subject is policy toward Iran. Since the 1979 Iranian revolution and hostage crisis, the US has urged its allies, especially Japan, to discontinue all government assistance to, and investment in Iran. Japan has shared American concerns, but has tended to disagree with the US policy approach.

Following the Iran-Iraq War, Japan's economic ties with Iran strengthened. Between 1989 and 1992, Japanese imports of Iranian oil increased from 291,000 to 361,000 barrels per day. In 1993 Japan decided to resume aid to Iran. Tokyo extended a \$360 million loan—the first of four *tranches*—to help Iran build a dam and hydroelectric plant on the Karun River. From the Japanese perspective, this financial assistance served as a potential lever to induce more moderate behavior by Iran.

Differences between Washington and Tokyo regarding Iran widened when the United States tightened its sanctions policy. In March 1995 President Clinton issued an executive order banning US companies from signing oil development contracts with Iran. Accordingly, US pressure on Japan to cancel its loan agreement with Iran intensified. Initially, Tokyo demurred. In a conciliatory gesture to the US, Tokyo postponed the release of the second *tranche* of the loan. However, Japan delayed a decision about whether to terminate the loan agreement. Eventually, Iran chose to proceed with the project without Japanese loan support. In trying to balance its interests in this manner, Tokyo instead appeared to strain its relations with Washington and undermine its credibility with Tehran.

The Future of Japan's Foreign Policy in the Middle East

Japan's post-Cold War diplomacy is evolving in a manner that is less US-centered. At the same time, Tokyo is realizing that it will be faced with numerous obligations that require economic support, both on a unilateral and multilateral basis. In view of its constitutional constraints on the projection of military power, Japan has relied on other tools, most important of which is Official Development Assistance (ODA).

In 1990 Japan became the largest provider of ODA in the world, disbursing over \$9 billion annually. Japan gives almost twice as much as the third largest donor, France. According to the Overseas Economic Cooperation Fund (OECF) 1996 Annual Report, Japan contributed 5 percent of its ODA to the Middle East in Fiscal Year 1995. Syria, Jordan, Turkey and Yemen are the principal Middle East beneficiaries of Japanese ODA. As for Middle East oil-producing countries, whose per capita income is too high to qualify for grants and loans, Japan has sought to provide technical cooperation.

As in the past, Japan is still greatly influenced by US Middle East policy. Because Japan is protected by the American "security umbrella," Japanese officials feel obliged to listen to, if not always agree with, US policy makers. Japan's continued, albeit degraded, relationship with Iran clearly illustrates this point.

What will be the future of Japan's foreign policy in the Middle East? There are myriad problems in the Middle East: recidivist claims, terrorism, the peace process, political succession, and a variety of development challenges. Thus, a broad range of issues call for attention. Perhaps none of these is more important in the long run than the scarcity of water and the increased demand for it in the region. The area cannot

develop economically nor realize its full potential unless there is ample water to sustain economic growth.

Without a doubt, Tokyo's Middle East diplomacy will be based on Japan's economic power and the financial assistance it can provide to improve the region's infrastructures. By contributing to regional development in this manner, Japan hopes to strengthen friendships with Middle East countries to ensure access to oil. Japan would prefer to move out of the shadow of US influence in the area, but this will be nearly impossible. The United States will continue to carry the burden of security responsibilities, as it has since World War II. Moreover, the United States will remain committed to bringing about a lasting peace in the Middle East, though lagging economic development in the region may undermine these efforts.

Washington will continue to seek Tokyo's support for its policy toward the Middle East. The US and Japan could collaborate most effectively on the issue of water. For instance, Japanese ODA in Syria could be directed to projects that would improve irrigation techniques and water quality, and increase water flow to the Yarmouk River for the benefit of Jordan and its neighbors. The provision of desalination facilities would greatly alleviate the suffering of the people of the Levant.

On the political level, consultations between Washington and Tokyo should continue and be enhanced. It is Washington's duty to share information with Tokyo regarding the Middle East peace process so that Japan is not surprised by developments in the region. Japan, which maintains a dialogue with Iran, should urge Tehran to discontinue the acquisition, development and deployment of weapons which threaten commercial traffic in the Gulf and US forces stationed there.

Especially since 1987, Japan has played an increasingly responsible and active role in the Middle East. Yet, despite changes in the scope of its involvement, Japan's primary interest in the region, oil, has remained the same. Energy dependence continues to tie Japan to the Middle East. Meanwhile, the United States and Japan are inextricably linked to each other, in security, economic, and political terms. As a result, Tokyo and Washington must closely cooperate with one another in the Middle East.

JAPAN AND THE MIDDLE EAST: BUILDING A PARTNERSHIP

Yoshio Hatano

Over the years, Japanese understanding of the complexity of the Middle East has improved. Correspondingly, Japanese policy toward the region has evolved. Today, Japan's involvement in the Middle East encompasses the entire region, from the eastern Mediterranean to the Persian Gulf. Now and in the future, Japan's foremost challenge in the Middle East is to develop partnerships with, and among, the countries of the region in cooperation with the United States.

Changing Interests and Perceptions

Before the modern age, the focus of Japan's political, economic and cultural interest was the Orient (i.e., the Chinese cultural area) and Southeast Asia. In the modern age, emphasis shifted to Europe and America. For the most part, the Japanese people had no interest in the Middle East. Japanese words of Middle Eastern origin provide evidence of this. In ancient times, these Middle East-originating words were conveyed to Japan through the Chinese language. In the Azuchi-Momyama period, they were carried by the Spanish and the Portuguese languages. During the Meiji era and afterwards, English and French served the same purpose. Thus, for centuries, Japanese images of the Middle East were acquired primarily through intermediaries.

Direct Japanese contact with the Middle East did eventually occur, affecting perceptions of the region. Between the end of the Edo period and the Meiji era, Japan sent a number of goodwill and study missions, as well as students, to Europe and America. In those days, Japanese ships called in ports that included present-day Egypt, Turkey and other parts of the Middle East. Many Japanese people set foot on Mohammedan lands, obtaining a first-hand knowledge of this region. For a long time thereafter, the Japanese people regarded the Middle East as a Westernized area that had attained a level of modernization which Japan itself had not.

The Sino- and Russo-Japanese wars were a turning point in Japan's perceptions of the Middle East. Following these conflicts, Japan emerged as an imperial power in

East Asia. Henceforth, Japan viewed the Middle East primarily from a political perspective. Japan regarded the Middle East as British and French colonial possessions, and thus as models for its own rule over Taiwan and Korea. This view persisted. When, just before the outbreak of the Second World War, the idea of the "Great East Asia Co-Prosperity Sphere" was originated, Japan became interested in Islam, as practiced in China and Southeast Asia. At that time, Japanese military authorities undertook a study of the Middle East in order to gain a better understanding of Islam.

Whereas Japanese perceptions of the Middle East changed, until the post-Second World War period Middle Eastern perceptions of Japan did not. Middle Eastern peoples' knowledge of Japan tended to be second-hand, viewed mainly through the eyes of Europeans.

For the most part, then, pre-World War II relations between Japan and the Middle East were characterized by an absence of first-hand knowledge on both sides. Japanese-Middle Eastern relations reflected the distorted images the two peoples' held of one another. Mutual understanding was not fostered nor, as a result, was it attained.

This problem persisted during the initial two decades of the post-World War II period. In Japan, study of the Middle East was limited; training in Arabic and the other languages of the region was generally not available. These deficiencies were clearly reflected in the country's reactions to the 1973 oil "shock."

In response to the 1973 oil crisis, Japan sought to persuade Arab ambassadors that it was a "friendly country" which supported UN Security Council Resolution 242. Tokyo dispatched a special envoy to Saudi Arabia to explore what the Arabs had in mind. Basically, Japan overcame this crisis by consulting the United States, including meetings with US Secretary of State Henry Kissinger who was then visiting the country.

Also during the crisis, Japan announced what the Chief Cabinet Secretary called an "independent diplomacy." This approach consisted of curtailing diplomatic relations with Israel and sending political leaders such as Vice Prime Minister Miki, former Foreign Minister Kosaka, and Minister of International Trade and Industry Nakasone, to the Middle East on a series of friendly missions.

When urged to endorse the Chief Cabinet Secretary's "independent diplomacy," Foreign Minister Ohira reportedly asked a high-ranking Foreign Ministry official whether Israel was a "hostile nation" and Japan's policy toward the Middle East was "wrong." When the official replied, "no," Foreign Minister Ohira expressed his wish to prevent a public announcement of the Chief Cabinet Secretary's opinion. Due to harsh media criticism, and pressure from industrial leaders and Liberal Democratic Party members, the Chief Cabinet Secretary's remarks were nonetheless published.

In retrospect, one can argue that Japan followed an expedient path in 1973, taking a hard line toward Israel rather than making efforts to deepen relations with the Arabs. This episode reveals that, as recently as the 1970s, mutual understanding between the Middle East and Japan was inadequate. In the early 1970s Japan seemed to regard Middle East countries mainly as oil suppliers and markets for automobiles and electrical appliances. Japan no longer conducted its relations with the Middle East through third countries. However, these relations were (too) narrowly focused on trade. Japanese people poorly understood Middle Eastern culture and politics. Not until the 1980s did Japan make an earnest effort to broaden and deepen its understanding of the region.

The year 1980 marked the beginning of a construction boom in Middle East oil-producing countries, financed by increased oil revenues. This development sparked a growing interest in the Middle East among the Japanese business community. Accordingly, Japanese firms quickly trained persons with a practical knowledge of the Middle East rather than researchers. This laid the groundwork for the emergence of multifaceted relationships between Japan and the Middle East.

The Iran-Iraq War prompted Japan to seek ways to bring about stability in the Middle East. Then-Foreign Minister Abe opened a dialogue with Iran and Iraq, which Japan maintained throughout the conflict. The practice of constructive dialogue broadened to include discussions between Japan and other Middle Eastern countries. Japan's dialogue with parties directly concerned in the Middle East peace process thus occurred in the context of a more active diplomacy in the region.

To contribute meaningfully to the peace process, Tokyo had to restore the balance of Japan's policy toward the Arab-Israeli conflict, which had been disturbed by the publication of the Cabinet Secretary's informal remarks in 1973. This re-balancing occurred in 1987, when then-Foreign Minister Uno visited Israel. Mr. Uno's initiative marked the starting point of Japan's participation in the Middle East peace process.

The Gulf War caused the Japanese perspective on the Middle East to develop further. As a result of the war, the Japanese people exhibited a greater interest in resolving the Arab-Israel conflict. They appeared to understand more clearly the links between this problem, the stability of the Middle East, and Japan's energy security. In addition, the war posed new opportunities and increased pressures on Japan to become actively involved in forging a "new world order." Tokyo responded to these circumstances by declaring Japan's intention to participate in the Middle East peace process. Talks between Japan and the US about this matter ensued. An October 1991 letter from then-Secretary of State Baker to Foreign Minister Nakayama set the stage for Japan's participation in the multilateral framework.

Japanese involvement in the peace process was predicated on three principles: first, respect for initiatives taken by the parties concerned; second, active support for United States' peace efforts; and third, reinforcement of ties with Israel and assistance in the reconstruction and development of Palestine.

Accordingly, Japan took part in the January 1992 Moscow Conference on Multilateral Consultations for the Middle East Peace Process. Subsequently, Japan provided indirect support to the peace-building process by presiding over the Environmental Subcommittee, as well as by serving as vice-chairman of the regional economic development, water resources, and refugee working groups.

Japanese leadership in the multilateral framework led to the adoption of the Environmental Action Standards, as well as the formation of the Middle East and Mediterranean Tourist Association. In addition, Japan participated in the Middle East and North African economic summit, and supported the establishment of the Middle East-North African Economic Cooperation and Development Bank.

In support of the parties directly concerned in the peace process, Japan has provided economic assistance to Palestine, Egypt, Jordan, Syria and Lebanon. Japan dispatched a 77-member group to oversee the January 1996 Palestinian Council elections, and the following month sent a Self-Defense Force unit to join the UNDOF in the Golan Heights.

Since the end of 1994, political dialogue between Japanese and Middle Eastern leaders has intensified. The number of exchanges of visits by high-ranking officials has increased. Recent visitors to Japan have included Israeli Prime Minister Rabin (December 1994), Egyptian President Mubarak (March 1995), Jordanian Crown Prince Hassan (June 1995), Lebanese Prime Minister Hariri (June 1996), and PLO Chairman Arafat (September 1996). Meanwhile, then-Japanese Prime Minister Murayama and then-Foreign Minister Ikeda visited the Middle East countries concerned in the peace process in September 1995 and in August 1996, respectively. Thus, although it possesses less experience and fewer personnel in the Middle East than the US or European countries, Japan has sought to deepen its political and cultural ties with the region.

In pursuing stronger relations with Middle East countries, Japan has sought to maintain a steady course. This is clearly illustrated by its policy toward Iran. While criticizing Iran for conduct which impairs the latter's credibility and violates international norms, Japan has maintained a dialogue with Tehran. Japan believes that it is essential to maintain open channels of communication (as progress in the Middle East peace process has shown), and to use them to induce changes of behavior.

Japan has applied the principle of constructive dialogue not just in the Middle East, but in other areas as well. The regional environment in Asia is clouded by uncertainty, as exemplified by China's military expansion and the situation in North Korea. According to Japan, one of the ways to avoid a major disturbance is to help them to participate in the international framework or change their systems, ensuring a "soft landing." Japan's preference for dialogue is tempered by its acknowledgment that resolute action, based on the common sense values of the international community, must sometimes be taken.

Strengthening the Partnership

In the years leading to the new millennium, cooperation will be essential to ensure that the Middle East peace process continues, that proliferation of mass-destruction and nuclear weapons in the Middle East is prevented, that the spread of terrorism is curbed, and that the system of moderate Arab states is stabilized.

The link between Middle East stability and access to oil, as they relate to Japanese interests and involvement in the region, is a critical one. According to the Ministry of International Trade and Industry, in 1996 petroleum accounted for 55.8 percent of Japan's primary energy supplies. With the development of new energy sources and expansion of nuclear power capacity, the share of oil in 2010 is expected to fall only to somewhere between 47.7 percent and 50.1 percent. Thus, the age of petroleum dominance may well continue in Japan.

At the time of the 1973 oil crisis, Japan's dependence on Middle East oil imports was 77.8 percent. In 1987, Japan's dependence fell to 68 percent, but quickly returned to earlier levels. In 1995, Middle East producers furnished Japan with 78.6 percent of its oil supplies. By the end of the 20th century, it is expected that China, which currently supplies 5.1 percent of Japan's oil imports, and Indonesia, which furnishes 7.9 percent, will become net importers. Based on this projection, it will be necessary

for Japan to turn to the Middle East to compensate for the shortfall. As a result, Japan's dependence on Middle Eastern oil will reach an estimated 92 percent.

If current rates of economic growth among Asian countries are sustained, Asian oil consumption, according to some estimates, will rise threefold by the year 2015. As a result, almost all Middle East oil exports will go to Asia. Currently, Asian countries are taking incremental steps to gain access to Middle Eastern oil. Malaysia, for instance, has participated in an oil development project in Iran, while China has concluded an oil development contract with Iraq. (Notably, these actions are at odds with the US policy of "dual containment.")

In order to secure a stable supply of oil, Japan must remain attentive to five sets of challenges which may arise from these circumstances: (1) China's economic development and its policy toward the Middle East; (2) the security issue in the Middle Eastern region, including the defense of sea lanes; (3) the domestic stability of oil-producing countries, especially the subjects of unemployment and wealth disparities; (4) the inadequate infrastructure and increased burdens from rising public utilities charges in oil-producing countries; and (5) generational leadership transitions in these countries.

Among these challenges, the third and fifth are concerned with the domestic affairs of oil-producing countries. While these are crucial issues of concern from the standpoint of Japanese national interests, they can be addressed within the present international oil supply scheme. But, the first two challenges cannot be. China's primary energy consumption currently represents one-fifth of that of Japan and one-tenth of that of the United States. As China's economy grows, so will its energy consumption. Since oil as a commodity is sensitive to market factors, demand will be held down, provided that the supply-demand equation works in favor of oil price increases. Nevertheless, China's oil demand will continue to increase—albeit not to the current levels of Japan and the US—to such an extent that competition for Middle East oil will intensify. Furthermore, the possibility that China may provide arms, not just cheap labor, to Gulf countries in exchange for oil warrants attention and concern.

It is in Japan's interest to help ensure that "moderate" regimes remain in place in the Gulf and that these regimes observe human rights standards. In addition, Japan should help address the region's development problems by encouraging private direct investment by Japanese firms; promoting new forms of financial cooperation (e.g., BOT schemes, infrastructure improvements, electric power generation and water supply projects); and assisting Gulf oil-producing countries to develop manpower resources through technical cooperation. Finally, to foster mutual understanding and cooperation, Tokyo should encourage exchanges of visits by VIPs.

Japan is constrained in its ability to conduct relations with Gulf oil producers. Japan's constitution precludes its military cooperation with Middle Eastern countries. Furthermore, because of the high oil-income of Gulf oil producers, they are not eligible for Japanese overseas development assistance (ODA). In addition, the disappointing experiences of some Japanese firms have tended to dampen enthusiasm for private sector investment in the Gulf. In fact, Japanese enterprises have undertaken only five investment projects in Saudi Arabia, and none over the last ten years. To address this deficiency, in May 1996 Japan's Federation of Economic Organizations (Keidanren) took the initiative to establish the Middle Eastern Investment Promotion Agency. This led to three new investment projects. Hopefully, this trend will continue.

From now on, Japanese investment will play an increasingly important role in the countries directly concerned in the Middle East peace process. By investing in the formation of a regional market, for example, Japan will be able to contribute to the economic development and stabilization of this region.

Finally, as mentioned earlier, the key to successful Japan-Middle East relations is "strengthening the partnership" between them. Partnership between the US and Japan will also be important in addressing challenges posed by, and within, the Middle East. US-Japanese collaboration will be required in increasingly diverse fields, including the defense of sea lanes and policy toward China. Regarding the Middle East itself, US-Japan cooperation must extend to counter-proliferation efforts and to the Middle East peace process. Moreover, it must include deeper dialogue concerning policy toward Iran and Iraq, as well as China's role in the Middle East.

OPEC AND GLOBAL ENERGY SUPPLIES

Yoshiki Hatanaka

Trends and patterns in the world energy market form the context for assessing the extent of, and challenges to, Japan's energy interests in the Middle East. There are a number of indications that Persian Gulf oil supplies are of growing importance to the world energy market. Global demand for OPEC oil, and oil from the Gulf in particular, is rising. Meanwhile, global oil production capacity remains stagnant. Whereas the United States' demand for oil is expanding, its domestic production capacity is contracting. On the supply side, OPEC, which is no longer the strong cartel it was in the 1970s, possesses far less ability to manage production effectively. Due to the enormous size of their combined production capacity, the Gulf Cooperation Council (GCC) countries are increasingly important actors in the global oil market.

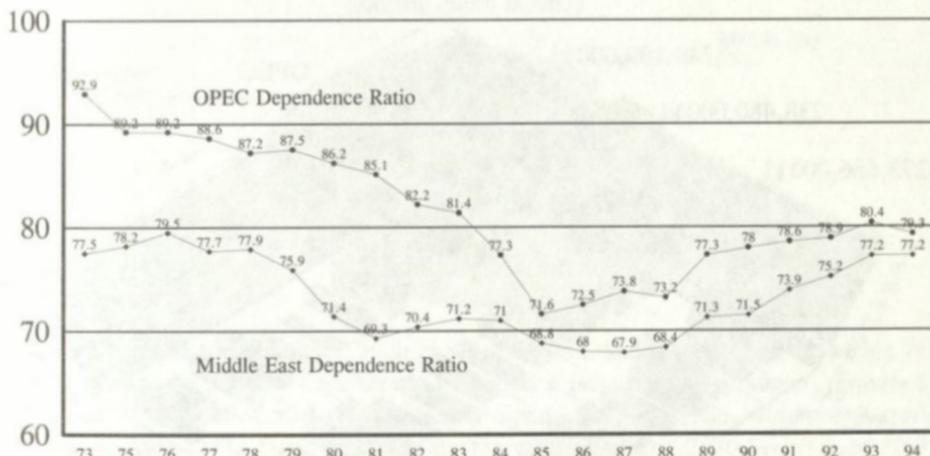
This brief sketch of global energy trends raises crucial questions concerning Japan's energy interests in the Middle East. What is the extent of Japan's dependence on Persian Gulf suppliers? How does the changing energy equation in Asia affect Japan's ability to meet its energy requirements? To what degree is Japan's economy vulnerable as the result of its dependence on Persian Gulf oil? Furthermore, what can and what should Japan do—in conjunction with its Asian neighbors and in cooperation with the United States—to manage its energy dependence and avert the risk of future supply disruptions?

Japan's Energy Interests in the Middle East

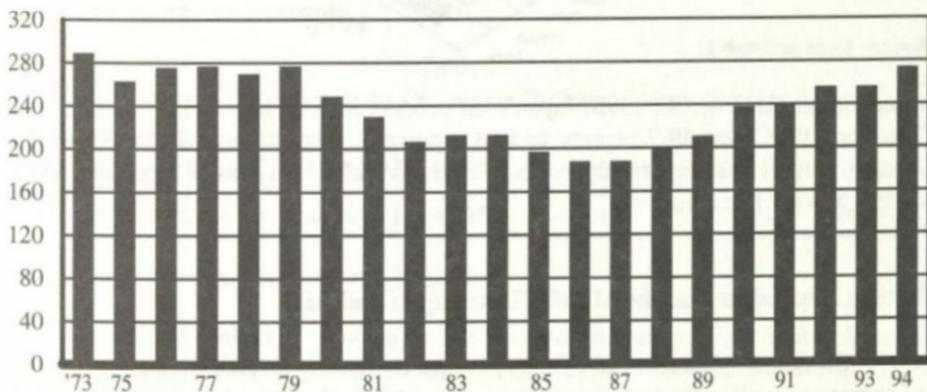
Since the mid-1980s Japan's dependence on Middle East and OPEC energy sources has increased. In 1994 Japan relied on Middle East oil producers for 77.2 percent, and on OPEC for 80.4 percent of its crude oil imports. Japan's crude oil import dependence on the Middle East in that year was nearly the same as in the 1970s while its degree of dependence on OPEC approximated that of the early 1980s (see Graphs 1A and 1B).

Of Japan's top five suppliers of crude oil, four are located in the Gulf. As Graph 2 indicates, the UAE furnishes 26.2 percent of Japanese crude oil imports, Saudi Arabia 19.3 percent (plus 2.3 percent from neutral zone between Kuwait and the Kingdom),

Graph 1A
Japan's Crude Oil Import Dependence on the Middle East and OPEC



Graph 1B
Japan's Crude Oil Import Volume (million kl)



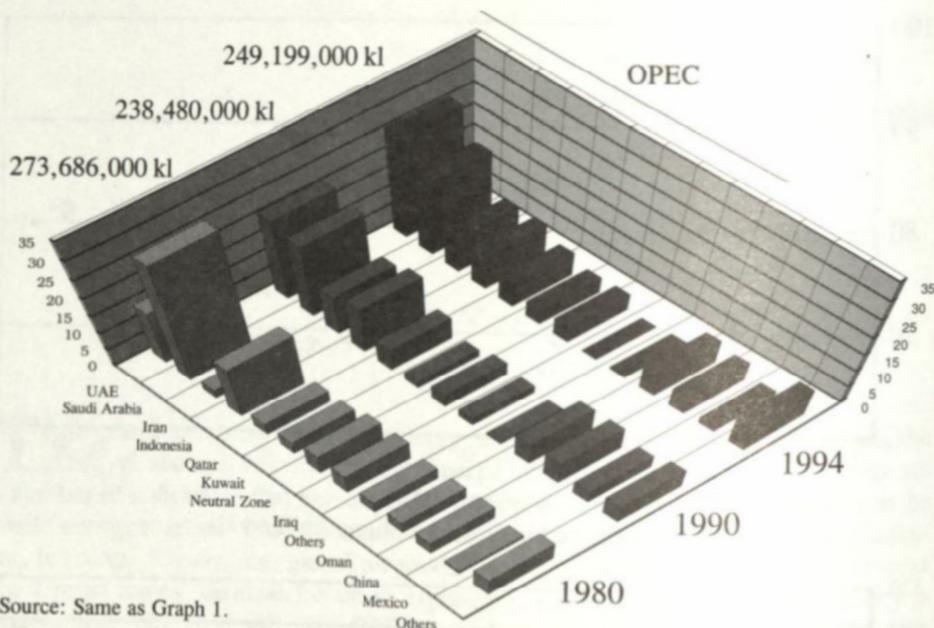
Source: *Energy Production, Supply Demand Statistical Year Book*, Japanese Ministry of International Trade and Industry.

Iran 4 percent, and Oman 6.6 percent. Indonesia is the only non-Gulf country among Japan's five leading oil suppliers.

Between 1980 and 1994, four notable changes occurred in the relative importance to Japan of individual oil suppliers. First, Japan's reliance on Saudi Arabia fell from 33.0 percent (plus 2.7 percent from the neutral zone) to 19.3 percent (plus 2.2 percent). Second, dependence on Indonesia declined from 15.0 percent to 8.8 percent. Third, largely due to the post-Gulf War sanctions regime, reliance on Iraq shrank from 5.5 percent to nil. In contrast, Japan's dependence on the UAE rose sharply from 14.7 percent to 26.2 percent.

Unlike Japan's high degree of dependence on the Middle East and OPEC for crude oil, its dependence on these suppliers for oil product and natural gas is relatively low

Graph 2
Japan's Crude Oil Imports

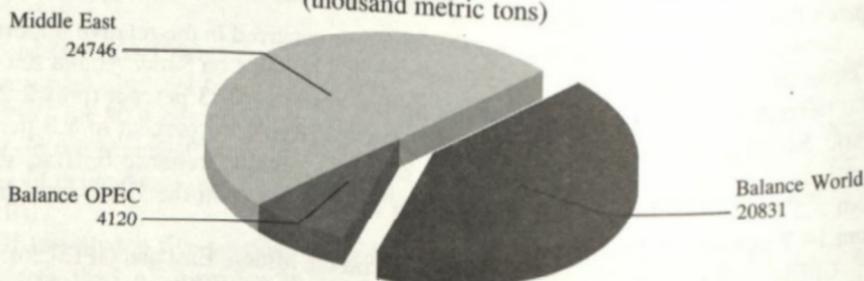


(see Graphs 3 and 4). In 1995, Japan's oil product import dependence on the Middle East and OPEC was 49.7 percent and 58.0 percent, respectively. In the same year, Japan's natural gas import dependence on the Middle East was 9.3 percent and on OPEC was 48.1 percent.

Future Dependence on the Middle East: Japan and Asia

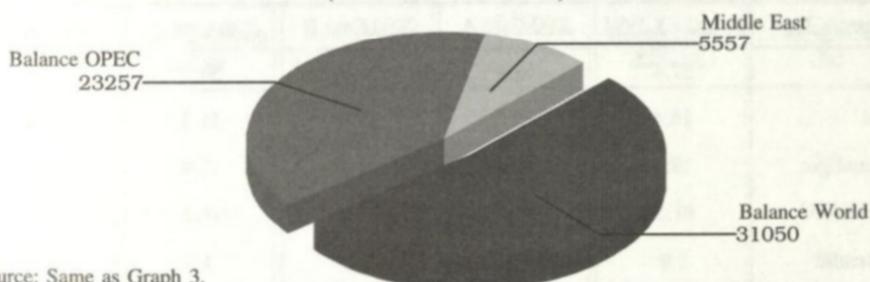
Following the first oil crisis, Japan pursued two goals: diversification of its sources of energy, as well as its energy suppliers. To achieve the first objective, Japan sought

Graph 3
Japan's Oil Products Import Dependence on the Middle East and OPEC
(thousand metric tons)



Source: "IEA Statistics Oil, Gas and Electricity," Quarterly Statistics, Third Quarter, 1996.

Graph 4
Japan's Natural Gas Export Dependence on the Middle East and OPEC
(million cubic meters)



Source: Same as Graph 3.

to develop "alternative energies" such as nuclear, coal, and natural gas. However, in spite of its efforts, Japan's dependence on oil as a primary energy source remained high. The 1995 ratio of 56.1 percent nearly equalled that of 1986, which registered 56.6 percent (see Table 1). Projections for the years 2000 and 2010 lie between 52.9 percent and 53.4 percent, and between 47.7 percent and 50.1 percent, respectively (see Table 2). Thus, the oil era in Japan will continue for at least the next 15 years. It is doubtful that Japan will be able to construct enough nuclear power plants to raise the ratio of new energy to 3 percent.

Table 1
Japan's Dependence on Oil among Primary Energy Supply

	1973	1986	1992	1993	1994	1995
Oil Ratio	77.4%	56.6%	58.2%	56.6%	57.4%	56.1%

Source: "Long-Term Energy Supply Outlook," June 1994

Viewed in the context of growing region-wide Asian energy consumption, Japan's dependence on Middle East oil is even higher. China and Indonesia, which export oil to Japan, are themselves importing oil from the Middle East and OPEC sources. China is already a net oil importer, and Indonesia is expected soon to become one. The continuation of these trends will accentuate Japan's indirect dependence on the Middle East. To illustrate, adding 14 percent (which is Japan's oil import dependence ratio on China and Indonesia) to Japan's 79 percent dependence ratio on the Middle East boosts Japan's reliance on the region to 93 percent.

Consideration of Japan's future oil dependence on the Middle East requires attention to the energy consumption patterns and projections of Asia as a whole. Between 1981 and 1991, actual annual average energy demand growth was about six percent, well above the two percent world average during that period (see Table 3). Asia is expected to remain an economic growth center, and thus to maintain a high energy demand growth ratio. China, Korea, Taiwan, India and the ASEAN countries are likely to join Japan as major oil importers. During the next fifteen to twenty years, most of the oil necessary to meet these projected sharp increases in energy demand will

Table 2
Japan's Projected Dependence on Oil among Primary Energy Supply

Energy Type	Actual FY 1994	2000 Case A	2000 Case B	2010 Case A	2010 Case B
Oil	57.4	53.4	52.9	50.1	47.7
Coal	16.4	16.6	16.4	15.3	15.4
Natural gas	10.8	12.8	12.9	12.7	12.8
Nuclear	11.3	12.1	12.3	16.2	16.9
Hydraulic	2.9	3.3	3.4	3.5	3.7
Geothermal	0.1	0.2	0.2	0.6	0.6
New energy, etc	1.1	1.6	2.0	1.7	3.0
Total	100.0	100.0	100.0	100.0	100.0

Note: Case A: Continuing current energy-saving measures. Case B: Additional energy-saving measures to restrain carbon dioxide, including new energy development measures.

Source: Same as Table 1

Table 3
Primary Energy Demand (1981-91)

	1981 Demand (metric tons)	1981 Percent Composition	1991 Demand (metric tons)	1991 Percent Composition	Change from 1981-91 (multiplier)	Change from 1981-91 (percent per yen)
World	6,395	100.0	7,852	100.0	1.2 times	2.1
OECD	3,609	56.4	4,137	52.7	1.1	1.4
Japan	336	5.3	438	5.6	1.3	2.7
Asia	549	8.6	970	12.4	1.8	5.9
China	406	6.3	665	8.5	1.6	5.1

Source: Energy balances of OECD countries (IEA) and energy statistics and balances of non-OECD countries (IEA).

have to come from the Middle East and OPEC sources (see Table 4). Thus, an important future challenge for Japan and its Asian neighbors will be to secure oil from the Middle East.

The future Middle East energy challenge for Japan and its Asian neighbors is twofold: managing increasing dependence and withstanding possible supply disruptions. To a large extent, economic rationality will resolve the problem of rising dependence on the Middle East. It is economical for Europe and the United

Table 4
Growth in Oil Demand and Supply by 2000 and 2020

	Demand Growth (mb/d)	Non-OPEC Supply (mb/d)	OPEC Production (mb/d)	Share of Non- OPEC (%)	Share of OPEC (%)
2000					
OPEC ¹	6.2	2.7	3.5	44	56
IEA ²	5.8-8.3	4.3	1.3-3.8	52-74	26-48
EIA ³	7.9	0.7	7.2	9	91
2010					
OPEC ¹	9.6	0.4	9.2	4.0	96
IEA ²	16.3-18.5	Δ3.0-1.8	16.7-19.3	Δ18-10	90-118
EIA ³	11.5	Δ0.4	11.9	Δ3.0	103
2015 EIA³	5.0	Δ0.8	5.8	Δ16	116
2020 OPEC¹	6.4	1.0	5.4	16	84

Note: Figures for 2000 may not compare with previous figures, as the latter can be considered as revised. Source: 1) Oil and Energy Outlook to 2020: OPEC World Energy Model (OWEM) Scenarios Report, January 1996, OPEC Secretariat, Vienna. 2) World Energy Outlook, 1996 Edition, IEA (two cases Capacity Constraints [CC] and Energy Savings [ES]). 3) Annual Energy Outlook 1996 with Projections to 2015, DOE/EIA (Reference Case).

States to import oil from non-Middle Eastern sources such as the former Soviet Union, Africa, and Latin America. But, for Asian countries, no economical alternatives to Middle East oil suppliers exist. If, as expected, Asian countries' oil consumption rises sharply, market forces are likely to intervene: high prices will probably restrain demand.

Managing the risks of supply disruptions, however, will require foresight and energy policy planning by Asian countries. More specifically, Asian oil-consuming countries must establish a multilateral energy security system, which includes measures to secure the sea lanes leading to and from the Middle East. One idea might be to develop the ASEAN structure into a regional security framework resembling NATO.

In discussing Asia's energy future, it is important to examine China's policy. China regards oil as a strategic commodity which is controlled primarily by the United States. For this reason, Chinese officials are concerned about the country's rising dependence on oil imports. China's overtures to Iran and Iraq reflect its interest in securing Middle East oil from sources where US influence is comparatively weak. Chinese officials believe that their capacity to provide weapons and cheap labor gives them good bargaining power. Thus, as Middle East oil flows to China in increasing amounts, Chinese arms and manpower are apt to flow liberally to the Middle East.

Table 5A
Japan's Oil Import and Economy

	Oil consumption (,000 b/d)	Oil import/import (% gross)	Oil import/ nom. GNP (%)	Real economic growth (%)	CIP (%)	Current account (\$ billion)
1973	5,460	17.6	1.6	7.9	11.7	0.1
1974	5,270	34.2	4.6	1.4	23.3	4.7
1975	5,020	36.3	4.2	2.7	11.6	0.7
1978	5,420	32.3	2.7	5.2	4.3	16.5
1979	5,485	34.3	3.8	5.3	3.7	8.7
1980	4,935	41.0	5.5	4.3	7.7	10.8
1989	5,005	14.1	1.1	4.9	2.3	56.9
1990	5,305	17.6	1.3	5.3	3.0	35.9
1991	5,410	16.0	1.1	3.2	3.3	68.4
1994	5,765	14.1	0.5	0.4	0.7	130.6
1995	5,780	11.9	0.7	2.4	0.0	111.3

Note: 1) Using Fiscal Year (April to next year's March) data. 2) Nominal GDP
Source: "Special Issue of Iraq Invasion of Kuwait" News and Analysis, Middle East Economy, vol. 17, no. 9
(21 September 1990). The Japanese Institute for the Middle Eastern Economy (JIME) and other sources.

Middle East Oil and the Japanese Economy

Although Japan's crude oil import dependence on the Middle East and OPEC has risen steadily since the mid-1980s, the impact of this development on the Japanese economy is far less severe than during the first and second oil crisis periods. Table 5A clearly illustrates this point. Although oil consumption in 1994 and 1995 was higher than in the late 1970s, its effect on the economy—as shown by the ratio of oil import value to nominal GNP—was considerably less. For example, the ratios in 1994 and 1995 were 0.5 percent and 0.7 percent, representing between one-fifth and one-tenth of the ratios in the oil crisis periods of the 1970s, and one-half of the ratio in the Gulf War period.

In 1994 the average price of imported crude oil calculated on CIP was \$17.32 per barrel. Even if the price were to rise sharply to the \$34 level for an entire year, the net impact on Japan in terms of economic growth would be only -0.5 percent. Of course, a mere 0.5 percent in downward pressure on economic growth could be economically detrimental, but not enough to cause a recession. The size of the Japanese economy, measured by GNP, is almost 5,000 billion dollars. In contrast, Japan's 1994 crude oil import bill was less than thirty billion dollars. Thus, even if crude oil prices increase threefold, the ratio of the value of crude oil imports to GNP would reach just 1.8

percent, nearly equal to the 1993 ratio of 1.6 percent. Although the ratio of oil imports to total imports would also triple (to 30 percent-plus), Japan's current account would remain in the black. The absolute value would decline dramatically, but a current surplus of 5 to 10 billion dollars could nonetheless be retained.

Thus, from a purely economic perspective, Japan need not fear the impact of oil price hikes, provided the oil flow from abroad remains secure. Less certain are the non-economic consequences of future oil shocks. Also unclear is whether, and how Japan and its Asian neighbors might react if the flow of foreign oil were interrupted.

The use of oil as a weapon to attain oil producers' political goals, as in October 1973, is improbable under current economic and political circumstances in the Middle East (see Table 5B). The oil-producing countries of the Middle East, including Saudi Arabia, must export their oil. In fact, Middle East countries are competing with each other for customers, particularly in the Asian market. Furthermore, Middle East producing countries face a number of economic problems. These countries thus have an incentive to cooperate with consumers such as Japan, from which they can obtain expertise and technology.

Table 5B
Japan's Oil Import and Economy

	First Oil Crisis 1973-75	Second Oil Crisis 1978-80	Gulf Crisis 1989-91	Current Situation 1994-95
Oil Inventory (Days)	67	92	142	150
Oil Price (\$/billion)	ArabianLight (OSP) 3.0 (Oct. 73)- 11.6 (Jan. 74)	Arabian Light Spot 12.8 (Sep.78)- 42.8 (Nov. 80)	Dubai Spot 17.1 (July 90)- 37.0 (Sep 90)	Dubai Spot 16.1 (Year 95)- 18.6 (Year 96)
Oil/Primary Energy (%)	77.4 (FY 73)	77.5 (FY 79)	58.3 (FY 90)	56.2 (FY 94)
ME Oil/Oil Import (%)	77.5 (FY 73)	75.9 (FY 79)	71.5 (FY 90)	77.2 (FY 94)

Source: Same as Table 5A.

Though impossible to anticipate, sudden disruptions of oil from the Middle East, as occurred in August 1990, can be overcome by exchanging information among the parties concerned and relying on strategic stockpiles. Were a revolution to occur in one of the Gulf countries, rational reactions by consumers to initial oil price hikes would minimize the adverse impact upon them. To reduce the unnecessary risk of such disruptions, it might be wise for Japan to help Middle East oil-producing countries to strengthen their economies by means of technical and financial assistance, and youth employment training programs.

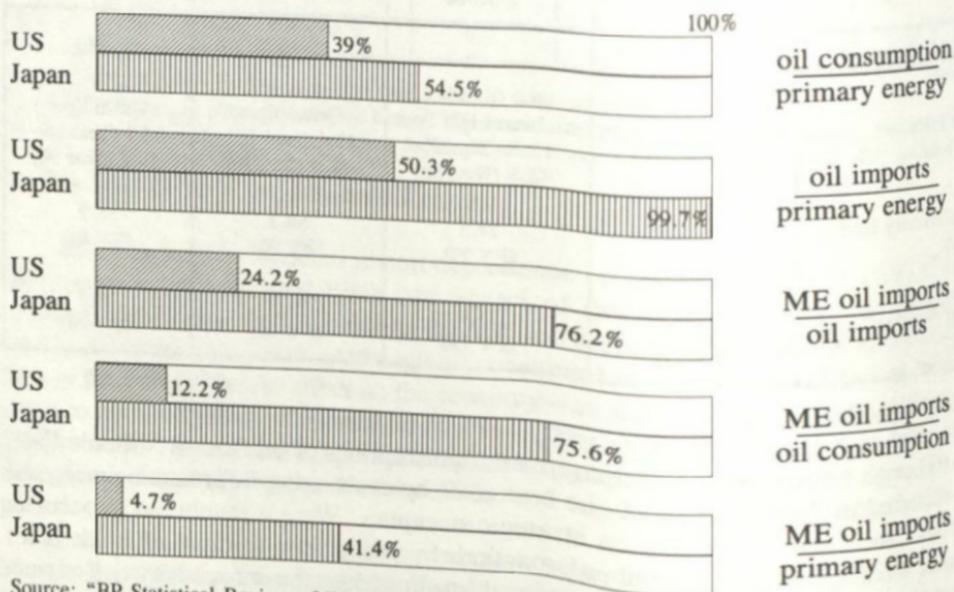
Asia as a whole can manage the risks of supply disruptions by establishing a mechanism like the International Energy Agency (IEA). Among other things, this institution could gather and disseminate statistical information regarding energy in all

Asian countries, and develop a region-wide stockpile system. (APEC is currently exploring these ideas.) In addition, Asian countries must develop confidence building measures to avoid the risk of confrontation among them.

Whatever measures Asian countries invoke to manage their rising oil dependence and withstand possible supply disruptions, two points are noteworthy. First, for the foreseeable future, oil will remain a strategic commodity, and thus susceptible to strategic and political influences. Second, it is possible that the current stability of the global oil situation is primarily attributable to the IEA stockpile system, coupled with the US military presence in the Gulf. It might be prudent for industrial countries (including Japan) to ensure that the stockpile system remains fully operational. Furthermore, in light of growing domestic resistance within some Gulf countries to the US military presence, it might be wise for Japan to focus on assisting oil-producing countries to overcome their economic, social, and political problems.

Energy-related damage to the environment is a global challenge. In the Asian context, the projected sharp rise of sulphur dioxide emissions in the next five to ten years will create acid deposition problems. Industrialized countries must seek ways to contain these emissions, and transfer to Asian countries the knowledge and technology yielded by these efforts.

Graph 6
US and Japanese Dependence on Middle Eastern Oil

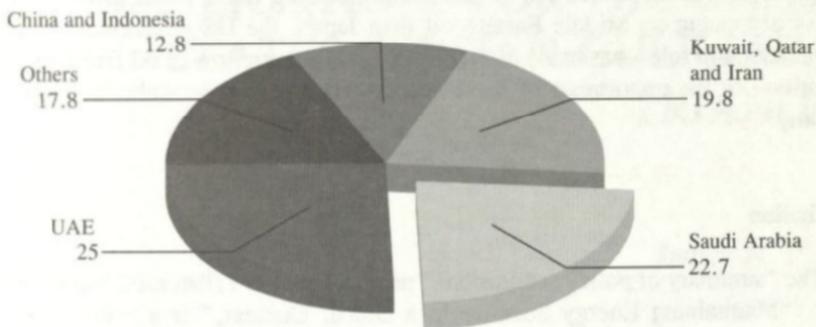


Source: "BP Statistical Review of World Energy 1996," "IEA Statistics Oil, Gas, Coal, and Electricity" Quarterly Statistics, Third Quarter, 1996. OECD Paris.

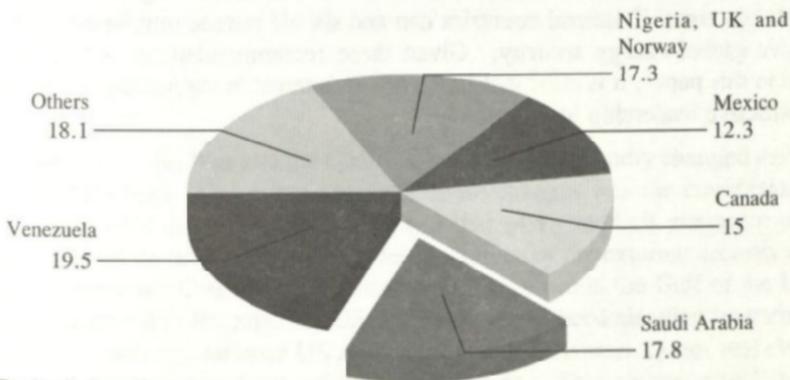
Japan-US Relations and the Middle East

The energy dependence of Japan is fundamentally different from that of the United States. Graph 6 clearly illustrates this point, comparing the ratio of their Middle East

Graph 7A
Sources of Japan's Oil Imports in 1995 (%)



Graph 7B
Sources of the United States' Oil Imports in 1995 (%)



Note: Crude oil plus oil products.
Source: Same as Graph 3.

oil imports to oil consumption, and the ratio of their Middle East oil imports to primary energy supply. The former ratio is 75.6 percent for Japan while only 12.2 percent for the United States. The latter ratio is 41.4 percent for Japan, but just 4.7 percent for the US. In simpler terms, Japan depends on Middle East oil for 40 percent of its primary energy requirements while the US depends on this source for merely 5 percent.

Graphs 7A and B depict the leading supplier countries (of crude oil, plus oil products) to Japan and the United States. Among Japan's top seven suppliers—constituting almost 80 percent of her imports—five are Persian Gulf countries. In contrast, Saudi Arabia is the only Middle East country which ranks among the United States' top seven suppliers. Furthermore, the seven leading US suppliers include three OECD countries (Canada, the United Kingdom and Norway) and two Latin American neighbors (Venezuela and Mexico).

This sharp distinction between the US and Japan in the extent of their energy dependence on the Persian Gulf places them on a different footing in their relations with the Middle East. The US is more free than Japan to formulate policy toward the region because of its comparatively weak energy ties. For Japan, it is a practical necessity to

maintain cordial relations with Middle East countries, especially oil producers. Chiefly for this reason, Japan has sought to build multifaceted relations with Middle East states, through economic assistance and its recent contributions to the peace process. Though far less dependent on Middle Eastern oil than Japan, the US—exercising its international leadership role—has made efforts to ensure a secure flow of oil from the Gulf, in recognition of the importance of these energy resources to the stability of the global economy.

Conclusion

The “summary of policy conclusions” provided by the Trilateral Commission in its paper, “Maintaining Energy Security in a Global Context,” is a useful basis for a conclusion. The summary notes that rising future dependence on Persian Gulf exporters, especially by Asian countries, will have important policy implications for Trilateral countries. It also states that, while policies will vary according to national conditions and objectives, Trilateral countries can and should pursue multilateral initiatives to improve global energy security. Given these recommendations and the analysis provided in this paper, it is clear that Japan has an interest in supporting, if not providing constructive leadership in this area.

CHANGING OIL DEMAND PATTERNS: IMPLICATIONS FOR THE UNITED STATES-PERSIAN GULF-JAPAN TRIANGLE

James A. Placke

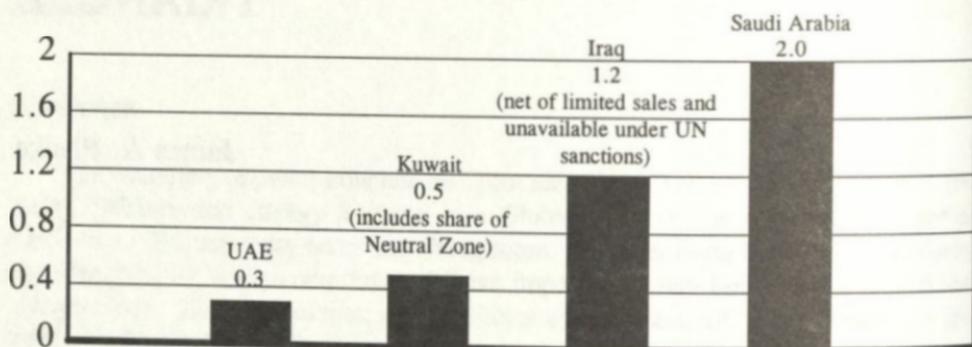
The end of the Cold War and the Gulf War with Iraq profoundly changed the world's geopolitical map. One consequence of these changes was the conversion of the United States' role in the Persian Gulf from that of an implicit guarantor of Saudi Arabia's external security to that of explicit guarantor of the external security of all of the Gulf Cooperation Council (GCC) states. The presence in the Gulf of the US Fifth Fleet headquartered at Bahrain, the US Air Force's enhanced air wing operating from Saudi Arabia, and prepositioned US Army equipment in Kuwait, Qatar, and elsewhere in the Gulf testify to the depth of this commitment. This clearly establishes Gulf security as a vital US interest, on a par with US interests in Western Europe and East Asia.

The collective position of the Persian Gulf states in the global oil market is the basis for this US national interest. The Gulf states, including Iran and Iraq, account for 65 percent of proved world oil reserves and 29 percent of 1996 world oil production. In addition, they possess nearly all of the world's readily available spare oil production capacity (see Figure 1). As a result, the Persian Gulf states—especially Saudi Arabia—are indispensable to the global oil market.

The preeminence of the Persian Gulf states in world oil supply and the United States response to its strategic implications form only a part of the energy security equation. Two other, less well-recognized trends may lead to a reexamination of present assumptions about the US-Gulf security relationship and may pose problems for the United States-Gulf states-Japan triangular relationship. First, US reliance on Western Hemisphere sources for oil imports at the expense of more distant (long-haul) sources—especially Gulf suppliers—is rising. Second, Asian countries are expected to remain the most rapidly growing energy consumers for at least the next 15 years. Understanding these trends will help in anticipating issues that can arise from a growing disparity

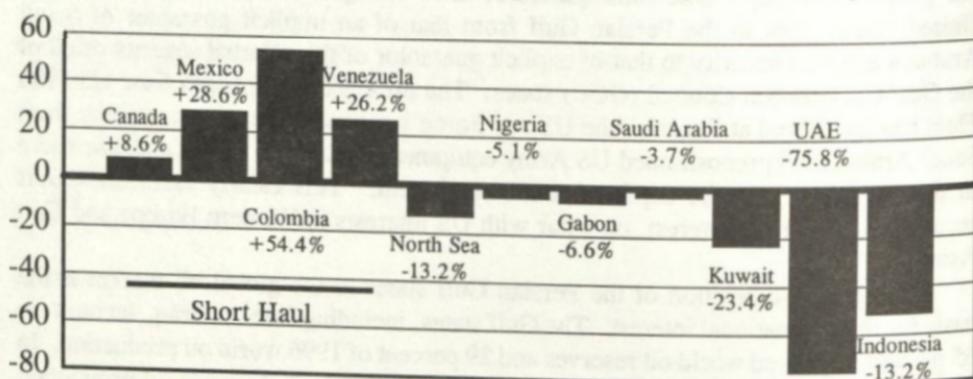
between the US commitment to Gulf security and a declining US dependence on Gulf sources of crude oil.

Figure 1
Margin of Comfort: Shut-in Middle East Production Capacity, 1997
(million barrels per day [b/d])



Source: Cambridge Energy Research Associates.

Figure 2
Rising Short Haul Crude Oil Transport
(percentage change in crude oil exports to the US, 1994 to 1996)



Source: Cambridge Energy Research Associates.

OPEC and World Oil Supply

The world no longer awaits the outcome of OPEC's semi-annual conferences with anxious anticipation, especially since the end of Operation Desert Storm. In recent years, non-OPEC oil production increases have exceeded those of OPEC while individual OPEC members have seemingly ignored their agreed production limits. As a result, although global oil demand has risen sharply, the world has taken an increasingly benign view of the availability of oil supplies. OPEC appears to have neither the interest nor the determination to seek higher prices through restricting supply. Between

the first oil shock in 1970 and 1996, OPEC's share of world crude oil production declined from 50 percent to 41 percent, while world output has grown by one quarter. Over the same period, Persian Gulf OPEC members' share of OPEC crude production decreased by eight percent. These trends, however, are not expected to continue much beyond the year 2000.

Between the years 2000 and 2010, we estimate that OPEC output will increase by about 10 million barrels per day and that non-OPEC production will decline after the year 2005 by about 500,000 barrels per day. Given the oil reserves of Gulf OPEC members, their share of total OPEC crude output will reverse course, and begin to rise between the years 2000 and 2005 at an accelerated rate. In short, we expect the long-anticipated reassertion of Gulf exporters' dominance over the crude oil market initially to be felt after 2005. In the decade leading to this shift in market influence, oil consumption and trading patterns may also affect the geostrategic alignment between the United States, the Persian Gulf, and Japan.

Declining US Dependence on Persian Gulf Oil

Between 1989 and 1996, United States' crude oil imports from the Persian Gulf declined by 230,000 barrels per day, reducing the share of Gulf oil in US imports from 30 to 20 percent. Over the same period, US crude oil imports from Western Hemisphere sources rose from 37 to 53 percent of total imports. The year 1989 was selected as a reference point since it is the most recent "normal" year for the Gulf, coming before Iraq's invasion of Kuwait but after the end of the Iran-Iraq War. These comparisons include Iraq but not Iran, since imports of all Iranian products into the United States have been banned since October 1987. There were no oil imports from Iraq from September 1990 until the very end of 1996, but the 440,000 barrels per day that the United States imported from Iraq in 1989 (the reference year) were replaced mainly by non-Gulf sources. For 1996, imports from the Persian Gulf fell to only 11 percent of the total US crude oil supply.

Since the oil price collapse of the mid-1980s, United States crude oil importers have substantially shifted their purchases from all distant (long-haul) sources, including Gulf suppliers, toward nearby (short-haul) sources. Three significant changes in the oil industry have fostered this shift: first, new oil exploration and production technology, which has enabled the discovery and exploitation of vast oil reserves in and around the Caribbean Sea; second, competitive pressures, which have led to cost reduction and increased efficiency; and third, willingness by Western Hemisphere oil-producing states to permit foreign joint ventures, which has resulted in sharp increases in production.¹

Figure 2 illustrates the effect of these developments on the flow of crude oil imports into the United States over the last two years (1994-1996). The data for US oil imports in this period reflect a change in the competition strategy of many companies, which favored the newly economical oil resources of the Western Hemisphere over long-haul supplies. Worldwide, private oil companies have generally adopted a strategy of minimizing inventories to reduce the cost of carrying stocks. This change, coupled with the rising availability of short-haul crude for the US market has led to a dramatic reduction in imports from more distant sources.

Since the early 1990s, the Asia Pacific region has led the rest of the world in the rate of increase in oil demand, and we expect this trend to continue. Table 1 compares 1995 Asian energy consumption by fuel type and forecasts consumption for the year 2005. Coal remains the region's leading energy source, and by 2005 will account for nearly half of world coal consumption. Over the same period, oil use will rise from just over one quarter of world consumption for 1995 to nearly one third by 2005, an increase of 8.7 million barrels per day. We expect most of this increase to come from the Persian Gulf, since Asia Pacific oil production will begin a long-term decline around the year 2000.

Table 1
Asia Pacific Energy Demand: Primary Energy Demand by Type
(million b/d oil equivalent)

	1995			2005		
	World Demand	Asia Pacific Demand	% of World	World Demand	Asia Pacific Demand	% of World
Coal	49.7	19.6	39.4	63.1	31.4	49.7
Oil	68.0	18.1	26.6	83.6	26.8	32.1
Natural Gas	36.6	3.9	10.8	47.5	6.9	14.6
Nuclear	11.9	2.2	18.3	12.9	3.0	23.3
Hydro	4.2	0.8	19.9	5.8	1.6	28.2
Other	1.1	0.2	21.3	1.8	0.4	22.0
Total	171.6	44.9	26.1	214.8	70.2	32.7

Source: Cambridge Energy Research Associates

This projection suggests that the relative dependence of Asia Pacific oil importers on Persian Gulf sources will begin to rise sharply after the year 2000, just prior to a general increase in the long-term importance of Gulf oil supplies. These trends are likely to affect Japan in particular. Japan imports virtually all of its hydrocarbon-based energy supplies. Furthermore, Japan—unlike other major regional economies such as China, India, and Australia—cannot draw on large domestic coal reserves. It also is noteworthy that much of Japan's imports of liquefied natural gas (LNG) is expected to come from Gulf sources. Yet, the proportion of LNG imports from the Gulf should begin to decline somewhat after the year 2000, as major new fields in Indonesia, Australia, and southeast Asia enter production.

Strategic Implications

The prospect of high and increasing Asia Pacific dependence on Gulf oil supplies at the same time that relative United States' dependence on these supplies declines over the next 10 years has potentially significant strategic implications. Given present budgetary objectives in the United States and the concern that would result from further terrorism against US forces in the Gulf region, pressure to reduce both the financial burden and the risks arising from the US commitment to Gulf security can be expected. These pressures might intensify due to a public perception that the United States is growing less "dependent" on Persian Gulf oil supplies. There is a unified world market for oil that produces virtually a single oil price, adjusted for quality and transportation differentials. Political factors, however, could intervene to foster US demands for "burden sharing" by countries, such as Japan.

The next challenge may be to develop a different pattern of security relationships that would create a perception of equitable burden-sharing. This could involve not only the United States and its allies in Asia and Europe but also the GCC governments. Finally, it is important to note that an energy-deprived Asia would produce consequences harmful to other US interests. Therefore, making future adjustments in complex interrelated interests may not be easy.

Notes

¹ In Venezuela, output has nearly doubled to 3 million b/d between 1989 and 1996.

THE UNITED STATES, JAPAN, AND THE GULF: MEETING EXTERNAL CHALLENGES

Anthony H. Cordesman

The United States and Japan face an increasingly complex set of challenges in the Persian Gulf region. Dependence on Gulf oil exports is increasing, while the United States and Japan are less prepared for energy emergencies, less flexible in reducing their reliance on energy imports, and have declining power projection capabilities. Meanwhile, the Gulf states face Islamic extremism, failed or weak secular regimes, as well as economic and demographic problems. Terrorism presents a growing challenge, while creeping proliferation poses a major new threat. Finally, uncertain progress in the Arab-Israeli peace process presents the constant risk of a political backlash in the Gulf.

Differences in US and Japanese Interests and Perspectives

The United States and Japan share a common strategic interest in ensuring the stable flow of Gulf energy exports at affordable prices. As major energy consuming nations, they need stable supplies of oil and gas. As major trading nations, the US and Japan depend on other importing nations' abilities to buy oil and gas at prices that will support world trade. Regardless of where they normally get energy imports, the US and Japan will compete for oil at the new, higher global price in an emergency. Furthermore, they have agreed to share oil imports under the administration of the International Energy Agency (IEA) in a crisis.

Yet, the national interests and priorities of the United States and Japan are far from identical. These differences are reflected in their policies towards the Gulf. The US emphasizes sanctions and "dual containment" and labels Iran and Iraq as "terrorist" or "rogue states." Japan rarely differs publicly from the US on policy towards Iran and Iraq, but privately it has growing reservations that this policy lacks a realistic end game and needlessly interferes with Japanese trade and investment.

The US and Japan also compete in trade and investment in the Gulf region. This has generated tensions over what controls to place on exports and investment, how sanctions should be applied, and how to control the export of dual-use technologies. In general, the US has advocated more export controls, stronger use of sanctions, and control of more dual-use items than Japan.

Washington and Tokyo support arms control, but differ over strengthening the enforcement of various arms control arrangements affecting the Gulf such as the Missile Technology Control Regime (MTCR), Nuclear Non-Proliferation Treaty (NPT), Chemical Weapons Convention (CWC), and Biological Weapons Convention (BWC). Similarly, they differ over how to deal with the revival of Islam and Islamic movements.

Most of the differences between the US and Japan regarding the Gulf are not products of mutual misunderstandings. Rather, they reflect differences in national priorities and divergent views concerning how best to deal with the region's complex problems.

Strategic Interests in the Gulf

It is almost a cliché to point out that energy resources are the main Japanese and American strategic interest in the Gulf. Comparatively little attention, however, is paid to emerging energy trends and their possible consequences. If the projections of the International Energy Agency (IEA) and US Energy Information Agency (EIA) are correct, changes are taking place in Gulf energy exports and trading patterns that will have a major impact on the US and Japan.

Energy Exports and Growing Dependence on the Gulf

There are many ways to project future energy balances. Governments tend to make demand-oriented estimates that focus on supporting economic development. In contrast, oil companies tend to make supply-oriented estimates based on conservative forecasts of business prospects, investment costs, and energy prices.

Although all estimates are uncertain and have often been wrong, one fact is clear: the Gulf has over 60 percent of the world's proven oil resources and nearly 40 percent of its proven gas resources. A quarter century of intensive oil and gas exploration has led to steadily increased estimates of the Gulf's share of the world's oil and gas. There are no indications that this trend will be reversed. In general, discoveries in other regions are often counterbalanced by the depletion of existing fields. In this case, the rate of projected increase in other regions continues to lag behind the rate of projected growth in the Gulf.¹

All Gulf states, however, do not have equal resources. Table 1 shows current estimates of the oil and gas resources by country, and how they compare with reserves outside the Gulf. Relying on this data, it is clear that Saudi Arabia remains the key to stable energy supplies. It is also clear that "rogue states" like Iran and Iraq are critical to world energy exports, as are "vulnerable states" like Kuwait and the UAE.²

Table 2 provides a recent US projection of the world's need for increased oil supplies through the year 2015.³ Typical of EIA and IEA projections, these estimates

Table 1A
Oil Reserves in Billions of Barrels

	Identified	Undiscovered	Identified plus Undiscovered	Proven	Percent of World Total
Bahrain	-	-	-	.35	-
Iran	69.2	19.0	88.2	89.3	8.9%
Iraq	90.8	35.0	125.8	100.0	10.0%
Kuwait	92.6	3.0	95.6	96.5	9.7%
Oman	-	-	-	5.0	NA
Qatar	3.9	0	3.9	3.7	0.4%
Saudi Arabia	265.5	51.0	316.5	261.2	26.1%
UAE	61.1	4.2	65.3	98.1	9.8%
Total	583.0	112.2	695.2	654.1	64.9%
Algeria	-	-	-	9.0	0.01%
Libya	-	-	-	23.0	2.3%
Middle East Total	-	-	-	686.1	68.6%
Rest of the World	-	-	-	313.7	31.4%
United States	-	-	-	23.0	2.3%
World	-	-	-	999.8	100.0%

are higher than those of most oil companies. Moreover, they are based on assumptions which, if proven incorrect, will lead to unrealistically low forecasts of future demand for Gulf oil.⁴ The EIA and IEA projections assume that conservation and output from other energy sources will significantly increase; that the former Soviet Union will re-emerge as a stable energy producer and exporter; that China can meet most of its energy needs by using more coal and solving related environmental problems; that Asian nuclear power generation can grow faster than in other regions; that oil-importing countries with low rates of economic growth (e.g., India) will maintain this slow pace; that enhanced oil recovery will sharply reduce the future growth of US oil imports; and that the US, Japan, and Europe have reached a level of development which will necessitate slower increases in their demand for oil and gas. Because it is unlikely that all of these assumptions will prove correct, the actual demand for Gulf energy exports may be far greater than the Table 2 projections.

The data in Table 2 also shows that most of the projected increase in oil demand will come from developing countries in Asia. These states will increase their consumption of oil from 10.6 MMBD today to roughly 24.7 MMBD by 2015. In contrast, US, Japanese, and European OECD consumption is projected to rise more slowly. The result of this change will be a major shift in the direction of energy exports from the

Table 1B
Gas Reserves

	TCF Reserves	BCM Reserves	Percent of World Supply	Production in BCM
Bahrain	-	-	-	-
Iran	741.6	21,000	14.9%	60.0
Iraq	109.5	3,100	2.2%	2.75
Kuwait	52.9	1,498	1.1%	5.17
Oman	-	600-640	-	-
Qatar	250.0	7,070	5.0%	18.4
Saudi Arabia	185.9	5,134	4.2%	67.3
UAE	208.7	5,779*	4.2%	31.63
Gulf	1,548.6	-	31.1%	185.25
Algeria	128.0	-	2.6%	-
Libya	45.8	-	0.9%	-
Middle East Total	1,722.4	-	34.6%	-
Rest of World	3,257.9	104,642	65.4%	-
World Total	4,980.3	148,223	100.0%	-

* Other sources estimate 6,320-7,280 BCM for Abu Dhabi only.

Source: The reserve and production data are adapted by the author from IEA, *Middle East Oil and Gas*, Paris: OECD, IEA, 1995, Annex 2 IEA, *International Energy Outlook, 1996*, Washington: DOE/EIA-048 (95, pp. 91-216; The EIA, Oil Market Simulation Model Spreadsheet, data provided by the EIA Energy Markets and Contingency Information Division; and EIA, *International Energy Outlook, 1996*, pp. 124-9.

West to Asia. This shift will be much greater if China does not double its coal consumption and Indian economic development occurs more quickly than anticipated.

Table 3 represents EIA estimates of the future increase in Gulf oil production, and how this change will affect Gulf producers. According to this forecast, in order to meet rising global demand, Gulf production must increase by over 40 percent between 1996 and 2000, and by over 90 percent between 1996 and 2010. Saudi oil production alone must increase from about 8.5 MMBD in 1996 to around 11.5 MMBD in 2000, and 14.9 MMBD in 2010. Total Southern Gulf oil production must increase from about 14 MMBD in 1996 to around 18 MMBD in 2000, and 24.2 MMBD in 2010.

Under these circumstances, both Iran and Iraq will become increasingly important energy suppliers. Iran has between 67 and 90 billion barrels of oil reserves (roughly 10 percent of total world reserves), and between 620 and 741 trillion cubic feet of gas. According to EIA projections, Iranian oil production must increase from about 3.9 MMBD in 1996 to 4.3 MMBD in 2000 and 5.5 MMBD in 2010. Iraq will become even more important than Iran to the world energy market. Iraq has between 91 and 125

Table 2
 Estimated Trends in World Oil Consumption by Region and Major Country
 (million barrels per day [b/d])

	1990	1995	2000 Base	2000 Range	2005 Base	2005 Range	2010 Base	2010 Range	2015 Base	2015 Range
OECD N.Amer.	20.4	21.5	22.8	22.2-23.3	24.2	23.2-25.1	25.3	23.9-26.6	26.2	24.4-28.0
US	17.0	17.8	18.8	18.3-19.2	19.9	19.1-20.7	20.7	19.5-21.8	21.2	19.8-22.7
Canada	1.7	1.8	1.9	1.8-1.9	1.9	1.9-2.0	2.0	1.9-2.1	2.1	2.0-2.3
Mexico	1.7	1.9	2.1	2.1-2.2	2.3	2.2-2.4	2.6	2.4-2.7	2.8	2.7-3.0
OECD Europe	12.9	13.8	14.2	14.1-14.4	14.6	14.2-14.9	14.7	14.3-15.3	14.9	14.3-15.6
EE/FSU	10.0	5.8	6.2	6.0-6.8	7.3	6.8-8.3	8.3	7.5-10.1	9.3	8.2-12.0
FSU	8.4	4.5	4.9	4.7-5.3	5.7	5.3-6.6	6.6	6.0-8.0	7.5	6.6-9.6
Eastern Europe	1.6	1.3	1.4	1.3-1.5	1.5	1.4-1.8	1.7	1.5-2.1	1.9	1.6-2.4
OECD Pacific	6.2	7.0	7.7	7.5-7.8	8.1	7.8-8.3	8.4	7.5-8.7	8.7	8.3-9.1
Japan	5.1	5.8	6.4	6.2-6.5	6.6	6.4-6.9	6.9	6.0-7.2	7.1	6.7-7.5
Other	1.0	1.2	1.3	1.3-1.3	1.4	1.4-1.4	1.5	1.5-1.6	1.6	1.5-1.7
Other Asia	7.7	10.6	14.5	13.5-15.4	18.1	15.8-20.2	21.1	17.4-24.6	24.7	19.3-30.0
China	2.3	3.5	4.4	4.1-4.6	5.4	4.6-5.9	6.7	5.2-7.6	8.2	5.9-9.6
India	1.2	1.4	1.9	1.8-2.1	2.4	2.1-2.7	2.8	2.3-3.3	3.3	2.6-4.1
Other Asia	4.2	5.7	8.1	7.6-8.7	10.3	9.1-11.6	11.7	9.9-13.7	13.2	10.8-16.3
Middle East	3.5	3.7	4.2	4.0-4.4	4.7	4.2-5.2	5.3	4.6-6.1	5.9	4.9-7.1
Africa	2.1	2.3	2.6	2.5-2.8	2.9	2.7-3.3	3.3	2.8-3.8	3.6	3.0-4.4
Cen. & S. Amer.	3.4	3.8	4.5	4.3-4.7	4.9	4.4-5.4	5.2	4.5-6.0	5.6	4.7-6.7
World Total	66.2	68.5	76.8	74.1-79.7	84.7	79.2-90.8	91.6	83.1-101.2	98.9	87.0-112.9

Adapted by the author from EIA, *International Energy Outlook, 1995*, Washington: DOE/EIA-048(95), p. 29. The EIA, Oil Market Simulation Model Spreadsheet, 1994, data provided by the EIA Energy Markets and Contingency Information Division, and EIA, *International Energy Outlook, 1994*, pp. 11-20.

Table 3
 Estimated Trends in World Oil Production by Region and Major Country
 (million b/d)

	1990	1994	2000 Base	2000 Range	2005 Base	2005 Range	2010 Base	2010 Range	2015 Base	2015 Range
Gulf	18.6	20.5	26.8	24.2- 28.9	31.6	26.5- 34.8	36.4	31.1- 44.2	44.2	38.6- 54.2
Iran	3.2	3.9	4.3	3.8-4.7	5.2	4.3-5.4	5.5	4.9-6.3	6.0	5.4-6.7
Iraq	2.2	0.6	4.4	4.0-4.9	5.7	4.5-6.4	6.7	5.8-7.6	7.2	6.5-8.0
Kuwait	1.7	2.3	2.9	2.8-3.1	3.6	3.1-3.9	4.2	3.5-4.9	4.5	3.8-5.1
Qatar	0.5	0.6	0.6	0.5-0.7	0.6	0.5-0.7	0.6	0.5-0.6	0.6	0.4-0.6
Saudi Arabia	8.5	10.5	11.5	10.3- 14.5	12.8	11.1- 14.5	14.9	12.9- 19.6	21.2	18.7- 28.5
UAE	2.5	2.6	3.1	2.8-3.9	3.7	3.0-3.9	4.5	3.5-5.2	4.8	3.8-5.3
Other Mid East	4.3	4.5	5.6	5.2-6.0	5.6	5.6-6.0	5.6	4.4-5.9	5.3	4.3-5.7
Algeria	1.4	1.1	1.5	1.3-1.6	1.3	1.0-1.4	1.1	0.7-1.3	0.9	0.5-1.0
Libya	1.6	1.6	1.8	1.6-2.2	2.1	1.7-2.4	2.3	1.6-2.6	2.4	1.8-2.8
Other	1.3	1.8	2.3	2.3-2.2	2.2	2.3-2.2	2.1	2.1-2.0	2.0	2.0-1.9
Total Mid East	22.9	25.0	32.4	29.4- 34.9	37.2	31.5- 40.8	41.9	35.5- 50.1	49.5	42.9- 59.9
OECD	20.0	21.8	21.9	22.8- 21.0	20.8	22.7- 19.3	20.2	22.3- 18.1	19.6	21.7- 17.0
EE/FSU	11.7	7.3	7.6	7.7-7.5	8.6	8.9-8.4	9.8	10.1-9.4	10.5	10.8- 10.1
Asia	6.7	7.0	7.7	7.8-7.7	7.5	7.5-7.5	7.0	7.0-7.0	6.7	6.5-6.7
Sub-Sah- aran Afr.	6.7	7.0	7.7	7.8-7.7	7.5	7.5-7.5	7.0	7.0-7.0	6.7	6.5-6.7
Latin America	5.0	5.6	7.2	6.8-7.5	8.0	7.4-8.4	8.4	7.9-8.6	8.5	8-11.2
OPEC	27.8	30.2	37.5	33.7- 40.8	43.0	35.9- 47.5	48.3	40.6- 57.4	56.1	48.1- 68.0
WORLD TOTAL	69.7	70.8	81.2	78.7- 83.3	86.9	82.4- 89.3	92.1	87.3- 98.3	99.2	94.0- 107.6

Adapted by the author from EIA, *International Energy Outlook, 1996*, Washington: DOE/EIA-048(95), pp. 91-216, the EIA, Oil Market Simulation Model Spreadsheet, 1995 data proved by the EIA Energy Markets and Contingency Information Division. OECD includes the United States, Canada, Mexico, and the North Sea.

billion barrels of oil reserves (roughly 10 percent of total world reserves) and 109 trillion cubic feet of gas. The EIA projects that Iraqi oil production must increase from about 0.6 MMBD in 1996 to 4.4 MMBD in 2000 and 5.7 MMBD in 2010.

The projections in Tables 2 and 3 indicate that the percentage of total Gulf exports going to Asia will rise from 40 percent to over 60 percent, making Asia the Gulf's leading oil buyer. As a result, most of the future increase in Gulf oil and gas exports will have to move by sea, at least doubling the tanker traffic in the Gulf region by the year 2010. These changes will occur at a time when oil markets are setting progressively more demanding delivery schedules and attempting to minimize stocks and inventories. Thus, maintaining world energy imports will change radically, both in terms of the direction of world energy flows as well as in the scale of energy shipments.

Trade and Investment

Although the US, Japan, and Europe compete for Gulf trade and investment at the private sector level, they have common interests at the state level. Moderate and stable world oil prices are vitally important to all of these states. As a result, it is of concern to all of them that Gulf countries invest enough in energy production and export capabilities to satisfy world demand.

The US and Japan (like Europe) depend more on the steady growth of trade with other OECD states and developing countries outside the Gulf than on trade with the Gulf states. For nearly twenty years, the growth of trade in the Middle East (including the Gulf) has lagged far behind the growth of trade in the developed world and in every developing region except sub-Saharan Africa. Between 1994 and 1995 alone, the value of Middle Eastern exports dropped by nearly 15 percent, and the value of Gulf exports dropped by over 18 percent. In contrast, the value of OECD exports rose 67 percent, the value of the exports of the entire developing world increased 27 percent, and the value of East Asian exports grew 108 percent.⁵ While harder to quantify, the trends in foreign investment seem to have been even worse.⁶ The failure of Middle Eastern countries to be competitive in global terms has led to their marginalization in world trade and foreign investment.

Nevertheless, the Gulf states are important trading partners for individual importing countries and many major companies. Table 4 illustrates this fact by showing the overall patterns of Gulf trade in a typical year. Table 5 shows the recent volume of trade between the Gulf on one hand, and the US and Japan on the other. Whereas this volume represents a relatively small fraction of total world trade, it is large enough to be very important to the trading companies, exporters, and investors involved.

Furthermore, the growth in Gulf energy exports will inevitably increase the importance of Gulf trade. Table 6 illustrates this point by providing a rough projection of the total cost of world energy exports for the period from 1995 to 2015. Most of this increase in the value of world oil exports will involve trade with the Gulf, and Table 6 projects an increase of roughly 90 percent to 210 percent between 1995 and 2015. These rates sharply exceed the estimated growth of world trade in most other regions. It is also important to stress that Table 6 only estimates the cost of crude oil per barrel. It does not include transportation, investment-related trade, gas and non-oil exports, infrastructure and facilities, and other costs. It also does not reflect the growing comparative advantage the Gulf is

Table 4
Trade Patterns in the Gulf: Part 1

	Exports: US\$ Billions	Exports: Product	Exports: Destination	Imports: US\$ Billions	Imports: Product	Imports: Source
Bahrain	3.69	80% petroleum & products 7% aluminum	11% Japan 5% UAE 4% S. Korea 4% India 3% Saudi A.	3.83	59% commodities 41% crude oil	47% Saudi A. 7% UK 7% Japan 6% US 5% Germany
Kuwait	10.5	oil	16% France 15% Italy 12% Japan 11% UK	6.6	food, construction materials, vehicles, parts, clothing	35% US 12% Japan 9% Canada
Iran	16.0	90% oil plus carpets, fruits, nuts, hides	Japan, Italy, France, Benelux, Spain, Germany	18.0	machinery, military, metal works, food, refined oil products	Germany, Japan, Italy, UK, UAE
Iraq	10.4 *	crude oil, refined products, fertilizer, sulfer	US, Brazil, Turkey, Japan, Netherlands, Spain	6.6 (in 1990)	manufactures, food	Germany, US, Turkey, France, UK
Oman	4.8	87% petroleum plus reexports, fish, processed copper, textiles	33% UAE 20% Japan 14% S. Korea 7% China	4.1	machinery, transport equip., food, livestock, lubricants	24% UAE 21% Japan 12% UK 7% US 6% France
Qatar	3.13	75% petroleum products, steel, fertilizers	57% Japan 9% S. Korea 4% Brazil 4% UAE 3% Singapore	1.75	machinery & equip., consumer goods, food, chemicals	16% Japan 11% UK 11% US 7% Germany 5% France
Saudi Arabia	39.4	92% petroleum & products	20% US 18% Japan 5% Singapore 5% France 5% S. Korea	28.9	machinery & equip., food, motor vehicles, textiles	21% US 14% Japan 11% UK 8% Germany 6% Italy
UAE	24.0	66% crude oil, natural gas, reexports, fish, dates	35% Japan 5% S. Korea 4% Iran 4% Oman 4% Singapore	20.0	manufactured goods, machinery, transport equip., food	12% Japan 10% UK 7% Germany 5% S. Korea

Source: Adapted by the author from the CIA *World Factbook*, 1995.

gaining from selling product. As a result, the Gulf has the potential to become a much more attractive trading area than it has been.

At the same time, the data in Table 5 does not definitively show that the Gulf will generate enough internal capital to finance the necessary level of exports, much less pay for infrastructure and other development projects. This possible deficiency will raise important issues for the Gulf states, as well as for the United States and Japan.

Table 5A
 Japanese Trade with the Gulf: 1994-1995
 (\$US current millions)

	1994 Exports	Jan.-Sept. 1994 Exports	Jan.-Sept. 1995 Exports	1994 Imports	Jan.-Sept. 1994 Imports	Jan.-Sept. 1995 Imports
Bahrain	165.4	213.0	227.1	393.2	295.1	306.4
Iran	910.9	802.3	500.5	2,758.3	1,931.6	2,115.7
Iraq	1.1	1.2	0.2	na	na	1.2
Kuwait	680.3	465.6	410.5	2,094.1	1,434.9	2083.9
Oman	700.4	516.4	479.1	1,857.8	1,308.5	1,416.1
Qatar	219.8	141.9	214.3	1,857.8	1,308.5	1,416.1
Saudi Arabia	3,246.5	2,444.1	2,026.3	8,384.5	6,034.8	7,528.1
UAE	2,250.4	1,723.0	1,569.8	9,142.6	6,498.7	7,565.9
Yemen	77.1	61.3	41.4	187.2	88.4	240.0
GCC Total	7,274.1	5,417.3	4,786.4	23,837.3	17,037.6	20,566.5
Total MENA	11,751.4	9,045.9	8,131.5	28,430.7	20,197.5	23,778.1
World Total	395,600.0	288,781.5	332,788.8	274,742.0	198,755.4	248,608.9

The nationalization of Gulf oil companies that began well over a quarter of a century ago has made Gulf governments the manager and key investors in the maintenance and expansion of oil and gas exports. In the past, these governments relied on market forces to obtain the necessary capital. Yet, since the "oil boom," the Gulf's economic situation has sharply deteriorated. It is possible that major energy importing states may have to help provide the volume of future investment that the Gulf will require. Moreover, as will be shown, these governments may also be required to urge Gulf states more strongly to implement economic reform and deal with their growing demographic problems.

Long-Term Challenges for the US and Japan

It is tempting to concentrate on the short-term political and security issues that affect the stability of the Gulf and contribute to tensions between the US and Japan. Yet, this narrow focus ignores key structural pressures affecting the region. It lends itself to the spurious claim that Islam or a "clash of civilizations" is the source of the region's problems, and thus diverts attention from their root causes. US-Japan cooperation in the Gulf must address the economic and demographic problems there.

Table 5B
 US Trade with the Gulf: 1994-1995
 (\$US current millions)

	1994 Exports*	1995 Exports	Jan.-June 1996 Exports	1994 Imports	1995 Imports	Jan.-June 1996 Imports
Bahrain	443.2	219.5	122.3	165.5	145.6	63.2
Iran	328.8	222.7	-	0.5	0.2	-
Iraq	0.8	-	-	-	-	-
Kuwait	1,175.1	1,416.2	879.1	1,597.6	1,468.5	754.3
Oman	219.1	219.5	106.3	497.0	320.7	170.6
Qatar	162.0	223.3	94.0	86.5	98.5	9.4
Saudi Arabia	6,010.5	6,085.0	3,219.5	8,307.0	8,898.0	4,268.3
UAE	1,593.0	1,994.0	1,154.0	476.1	485.5	262.2
Yemen	178.0	185.2	79.6	199.3	44.4	1.0
Total Arab Countries	10,712.8	11,492.5	6,259.6	11,450.5	11,593.6	5,667.4
Total MENA	20,804.6	21,804.2	11,363.3	19,323.3	20,227.6	10,292.6
Percent of Total US	4.1	3.7	3.7	2.8	2.6	2.6

* Including reexports.

Source: Adapted by the author from *Middle East Economic Digest*, December 15, 1996, pp. 27-40; US Department of Commerce fax data base and *Middle East Economic Digest*, September 27, 1996, p. 30.

1. Lagging Economic Development

As previously shown, the Gulf region obtains massive revenues from energy exports, and these exports are likely to increase dramatically in real value. As any visitor to the Gulf is aware, there are many material signs of prosperity in the region. In fact, average per capita income is higher than that of most developing states.

Yet, during the 1980s and early 1990s, Middle East economies as a whole lagged badly behind those of East Asia and most other developing regions. Between 1981 and 1990, the average annual rate of real GNP growth in the Middle East/North African (MENA) area was only about 0.8 percent. This compares with an average of 7.9 percent for East Asia, 5.7 percent for South Asia, and 1.7 percent for Latin America. Between 1960 and 1990, the Middle East was the only region in the world to exhibit a net decline in productivity. The productivity of the Middle East and North Africa (MENA) region dropped by 6 percent while East Asian productivity rose by 54 percent. Although in the last decade productivity in the Middle East has risen, this improvement represents only 20 percent of that of East Asia, and has lagged behind that of South Asia.⁷ Similarly, between 1980 and 1991, whereas the real per capita income of all developing countries rose at a 3

Table 6
 Impact of Different Oil Prices on the World Economy:
 Estimated Cost of World Imports and Value of Exports by Region
 (1994 \$billions = \$ cost in \$ 1994 x millions b/d x 365)

	1995	2000 Base Case	2005 Base Case	2010 Base Case	2015 Base Case
OECD North America					
<i>Imports (MMBD)</i>	6.6	8.5	10.1	11.0	11.4
IEO96	40.49	59.79	80.59	95.16	105.81
IEA	----	72.85	104.35	114.79	----
DRI	39.66	52.18	76.79	93.15	103.15
NERA	40.69	67.01	99.90	86.28	77.10
PIRA/GRI	42.71/----	45.48/50.17	56.67/59.67	----/64.92	----/67.28
OECD Europe					
<i>Imports (MMBD)</i>	7.5	7.2	8.5	9.3	10.5
IEO96	46.02	50.64	67.82	80.45	97.46
IEA	----	61.71	88.70	97.05	----
DRI	45.06	44.20	64.63	78.82	95.01
NERA	46.24	56.76	84.08	72.95	71.02
PIRA/GRI	48.54/----	38.52/42.49	47.69/50.17	----/54.89	----/61.97
Asia					
<i>Imports (MMBD)</i>	10.6	14.5	18.7	22.5	26.7
IEO96	65.04	101.99	149.21	194.64	247.83
IEA	----	124.27	195.15	234.79	----
DRI	63.68	89.02	142.18	190.69	241.59
NERA	65.35	114.32	184.97	176.49	180.58
PIRA/GRI	68.59/----	77.59/85.58	104.91/110.37	----/132.79	----/157.58
Middle East					
<i>Exports (MMBD)</i>	21.3	28.2	32.5	36.6	43.6
IEO96	130.69	198.35	259.31	316.61	404.69
IEA	----	241.68	339.15	381.93	----
DRI	127.97	173.13	247.09	310.19	394.51
NERA	131.31	222.33	321.47	287.08	294.89
PIRA/GRI	137.84/----	150.89/166.44	182.33/191.82	----/216.02	----/257.33

Note: Production and consumption models do not balance at world level.

Source: Adapted by the author from EIA, *International Energy Outlook, 1996*, Washington, DOE/EIA-0484(96), May, 1996, pp. 91-131.

percent annual rate while that of East Asia increased by an average of 5.6 percent, that of the MENA region dropped by an average of 2.7 percent.⁸

Despite energy export revenues, the economies of the Gulf states did not perform better than those of other MENA countries. In fact, this was not the case. War, revolution, authoritarianism, and economic mismanagement were costly to Iran and devastating to Iraq. Southern Gulf countries misused their oil wealth, creating large and inefficient state sectors and funding welfare and subsidy programs. Most southern Gulf governments experienced chronic budget deficits; their efforts to diversify the economy, in some cases poorly conceived and in others under-funded, faltered.

Even if Iraq is dropped from the comparison, the economies of the fuel-exporting Gulf states have badly under-performed the more diversified economies of the Levant and North Africa (which themselves have done poorly by world standards). According to the IMF, the Gulf's per capita income has declined sharply since 1980, while that of diversified exporters has increased by nearly 20 percent. Gulf economies have also lagged behind those of other MENA countries in terms of fiscal balances, terms of trade, and other key measures of economic performance.⁹ In spite of recent rises in real oil prices, in 1996, five of the world's 20 slowest-growing economies were those of Bahrain, Iran, Saudi Arabia, the UAE, and Yemen.¹⁰

Human beings rarely see their own interests in macro-economic terms. Instead, they deal in personal expectations and experience. Per capita income is the best single indicator of probable trends in their perceptions. Iran's real per capita income has dropped close to its pre-oil boom levels of 1972. Measured in constant 1995 US dollars, Iran's per capita income reached a peak of over \$11,000 in 1979, but fell to between \$2,000 and \$3,000 in 1996.¹¹ In 1979-80, Iraq's real per capita income attained a level in excess of \$14,000, but dropped 50 percent during the 1980s. The imposition of UN sanctions has driven it below \$800, and perhaps to the crisis level. Saudi Arabia's per capita real income was well in excess of \$20,000 in 1981, but only in the \$7,000-\$8,000 range in 1996. The smaller southern Gulf states have experienced similar difficulties. Unless the value of total energy exports reaches the highest rate projected in Table 3, only Kuwait, Qatar, and the UAE have sufficient oil and gas wealth to maintain or increase per capita income.

These economic problems are largely self-inflicted. Conflicts severely affected the economies and societies of Iran, Iraq, Kuwait, Saudi Arabia, and Yemen. The other Gulf states have been hurt by inefficient state-managed economies, protectionism, excessive bureaucracy, nepotism, monopoly, and corruption. Bahrain, Iran, Oman, Qatar, Saudi Arabia, and the UAE have made only limited progress in instituting structural economic reforms. Privatization is grindingly slow, and major barriers to domestic and foreign investment remain.

2. Demographic Pressures

Adverse demographic changes in the Gulf have compounded the cuts in real oil prices, the costs of war, and the governments' failures to adopt effective economic reforms. High rates of population growth in Gulf countries contributed to declines in per capita income. They produced a "youth explosion" which threatens to place an exceptional burden on the national economies, in turn raising the risk of social and political disruption (see Table 7).¹²

Table 7
Population
(millions)

	1990	1995	2000	2005	2010
Bahrain	0.503	0.572	0.639	0.704	0.771
Iran	56.0	65.0	75.0	85.0	96.0
Iraq	18.1	21.0	24.5	28.4	32.5
Oman	1.5	1.9	2.3	2.8	3.3
Qatar	0.486	0.544	0.598	0.646	0.693
Saudi Arabia	15.8	18.6	22.0	25.8	30.0
UAE	1.6	1.8	2.0	2.2	2.3

Source: Cordesman, *The Gulf Military Balance, Volumes I and III*, CSIS Middle East Program Report, January, 1997.

Population increases of the magnitude already realized by, and projected for, the Gulf make it unlikely that personal wealth and per capita income can keep pace. It is also unclear whether the Gulf region's investment requirements can be met. Between 1995 and 2015, the Gulf must make major investments in energy facilities and in economic diversification that may total well in excess of \$400 billion. Population growth is creating a need for massive investments in construction, infrastructure, water, education, and job creation. It is also increasing structural dependence on imports, particularly in the agricultural sector. Although it is impossible to anticipate precisely how much additional investment will be required, several billion dollars is not an unrealistic rough estimate.

Without major economic reform and reductions in population growth, most Gulf governments will be unable to meet societal expectations, especially those of the youngest, most politically volatile portion of the population. In turn, these governments will find it more difficult to broaden their political base and "legitimacy." Popular confidence in secular solutions to social and economic problems will erode, encouraging political and religious radicalism.

It is unclear when Iran and Iraq can restore the economic positions they held at the beginning of the 1980s. While Abu Dhabi, Dubai, Kuwait, and Qatar still have enough wealth to fund welfare states in which virtually all private sector labor is foreign, they too face the political and social consequences of economies that fail to provide youths with meaningful roles. Bahrain is a "post-oil economy" in crisis, where the Sunni elite is economically and politically divided from the large Shi'ite majority. Saudi Arabia, which is experiencing chronic budget deficits and serious internal unrest, has instituted major cuts in its welfare services. As a result of acute population pressures, the UAE's smaller Emirates face growing economic problems. Though its economy is well-managed, Oman confronts similar difficulties.

The changing composition, not just the increasing size, of their populations pose challenges to the Gulf countries. Nearly 40 percent of the population of the Gulf is under 14 years of age. This means that future declines in the rate of population growth will not affect the region for a decade or more. Of the entire population of the Gulf, 15-20 percent will enter young adulthood in the next five years, and would normally leave home. However, excessive dependence on foreign labor in the Southern Gulf, war in the Northern Gulf, and region-wide over-reliance on the state sector has already created a situation where direct and disguised native unemployment among young men averages 25 to 40 percent.

These problems are compounded by the failure of most Gulf governments to create educational systems that train native workers in ways that are globally competitive. Education is breaking down in Iran and Iraq. Saudi Arabia has allowed its educational system to be Islamized and its quality to deteriorate, particularly at the secondary level. Many Southern Gulf governments have mandated reductions in dependence on foreign labor, and have created meaningful job training programs. Yet, these initiatives have come late and have tended to lack the proper scale and funding.

Near-Term Challenges for the United States and Japan

As shown, the economic and demographic problems of the Gulf are complex and severe. They cannot be overcome with short-term expedients. Nor can the United States and Japan rely solely on market forces to address them. At the same time, these structural problems do not make near-term political and security problems less important. Therefore, the US and Japan face region-wide political and ideological challenges.

1. *The Iranian Challenge*

The expression "dual containment" is fading from the American diplomatic lexicon, but there are major divisions between the US and its principal allies over the best way to deal with Iran and Iraq. Japan is much less supportive of US policy in private than its lukewarm support in public indicates.

The United States regards Iran as a major threat to regional stability and peace. US policy makers recognize that Iran is still heavily dependent on worn-out, obsolescent military equipment, and that the annual value of Iranian arms imports has recently declined. However, US officials emphasize that Iran is actively deploying chemical weapons, may be deploying biological weapons, and has purchased long-range Scud C missiles and SU-24 strike aircraft. They point out that, by Gulf standards, Iran is also a major conventional military power.¹³

US policy makers and analysts note that Iran has built a significant capability for unconventional warfare in the Gulf. They have 3 Russian-manufactured submarines with mine-laying capabilities, advanced naval mines, a wide range of anti-ship missiles on small craft and in land bases near main Gulf shipping channels, and a large force of Revolutionary Guards equipped for anti-ship and amphibious warfare. They argue further that Iran has joined Syria in supporting Hezbollah in Lebanon, committed a number of acts of terrorism, and trained extremists from a number of countries.

US policy makers believe that all of the "pragmatists" or "technocrats" among Iran's senior leadership have participated in, or have been accomplices to acts of extremism and terrorism. They are convinced that the political trends in Iran have favored hard-liners with whom dialogue is unlikely to produce moderation or useful change. In varying degrees, Bahrain, Britain, Israel, and Saudi Arabia share these perceptions.

In contrast, many Japanese, European, and Arab experts believe that US officials are exaggerating the Iranian threat and "demonizing" the Iranian regime. They object to US policy for consisting of all "sticks" and no "carrots." Instead, they assert that a policy of dialogue, trade, and investment offers the best hope for moderating Iranian behavior. They feel that Iran, with the Middle East's second-largest population and substantial energy output, neither can nor should be isolated.

2. *The Iraqi Challenge*

United States officials differ with their Japanese (and most of their European) counterparts regarding policy toward Iraq. Until recently, US policy makers had not officially stated that sanctions against Iraq are intended to remove Saddam Hussein from power. However, the US has taken a much harder line toward Iraq than Japan and most European states.

US policy makers view Iraq's remaining conventional military capabilities and residual missile and unconventional arms programs as a major threat to regional peace and to American forces deployed in the area. Although US analysts are aware that defeat in the Gulf War and subjection to an arms embargo have weakened Iraq militarily, they contend that Iraq is still the Gulf's largest military power.¹⁴ According to UNSCOM, Iraq has concealed a significant force of long-range missiles and chemical weapons, and has failed to provide convincing evidence that it destroyed its massive stockpile of biological weapons. UNSCOM has also found that Iraq continues to smuggle in missile parts, chemical feedstocks, and specialized biological equipment.¹⁵ In addition, Iraq can rapidly deploy two to five divisions against Kuwait from the area around Basra. Further, this risk will increase sharply the moment Iraq can resume its arms imports and deploy south of its southern "no fly" zone.¹⁶

Japan shares many aspects of the US perception of the military risks and probable future intentions of Saddam Hussein's regime. Yet, to an increasing degree, Japanese officials share the convictions of some Europeans, who believe that efforts to maintain sanctions and the military status quo in the Gulf are policies with no "end game" that will create a *revanchist* Iraq and alienate the Arab world.

3. *Power Projection in the Gulf*

The increase in OECD energy dependence on the Gulf is occurring at a time when US military forces serve as the *de facto* "guardian of the Gulf." Discussions of potential European, Egyptian, and Syrian power projection have no real meaning in war fighting terms. Since the Gulf War, the US has reduced its forces by over 35 percent, but European states have made even sharper cuts while engaging in NATO expansion.

Japan has no plans to project power into the Gulf. Political rhetoric, token deployment capabilities, bilateral security agreements, and arms sales cannot disguise the reality: The US is the only outside power capable of significant military operations in

Table 8
The Size and Military Capabilities of the Gulf States

	Size (Sq. Km.)	Population (.000)	GDP (\$ billions)	Military (\$ billions)	Active Military Manpower	Tanks	Combat Aircraft	Combat Ships
Iran	1.6 mil.	64,625	59.8	5.0	513,000	1,445	295	56
Iraq	434,920	20,644	18.5	2.7	382,500	2,700	380	17
Sub-Total	2.1 mil.	85,269	78.3	7.7	895,500	4,145	675	73
Bahrain	620	576	4.6	.3	10,700	106	24	11
Kuwait	17,820	1,817	7.6	2.9	16,600	220	76	10
Oman	212,460	2,125	12.0	1.6	43,500	91	46	12
Qatar	11,000	534	7.7	0.3	11,100	24	12	9
Saudi Arabia	2.15 mil.	18,730	128.1	12.5	161,500	910	295	44
UAE	83,600	2,924	36.7	1.9	70,000	133	97	20
Sub-Total	2.5 mil.	26,706	196.7	19.5	313,700	1,484	550	106
Total Gulf	4,558,110	111,975	275.0	27.2	1.2 mil.	5,629	1,225	179
Yemen	527,970	14,728	23.4	0.8	39,500	1,125	69	10

Source: Based on estimates by the author.

the Gulf area, and the only Western power capable of military operations in a nuclear-biological-chemical environment.

This US responsibility creates a natural tension between the US on one hand, and Japan and Europe on the other. Japan and Europe have generally supported US policy, but are concerned about any US military actions that present problems for investment and trade. They object to burden sharing, and at times want a degree of consultation that amounts to a *de facto* veto. Europe is often more interested in arms sales to the Gulf than the resulting impact on the regional conventional military balance, or the inter-operability that Southern Gulf states will then have with US power projection forces.

It is not clear that much can be done to improve this situation. At the same time, empty rhetoric about cooperation and future coalitions is no substitute for an honest understanding of US and regional war-fighting capabilities. At minimum, Japan, Europe and the United States must develop some basis for better dialogue on burden sharing, arms sales, and the long-term implications of the US military role in the Gulf.

4. Proliferation of Weapons of Mass Destruction

Proliferation is a problem that is steadily complicating the Gulf and regional military balance. Currently, this process of proliferation is "creeping." Israel's nuclear program is relatively mature. Algeria and Egypt are quietly taking small steps forward

in this area. Libya's sometimes grandiose efforts have yielded minimal practical results. To a large extent, the activities of the IAEA and UNSCOM have contained Iraq's program.

Iran and Syria are the only states making significant progress in acquiring long-range missiles and extensive stocks of biological and chemical weapons. Yet, they are not acquiring weapons on the massive scale that Iraq had in the lead up to the Gulf War. In fact, Iran is the only state that seems to be firmly committed to joining the nuclear club. However, Iran is unlikely to make rapid progress unless it can find an outside source of fissile material. While most advanced Middle Eastern states are acquiring the capability to weaponize biological weapons with the lethality of small nuclear weapons, they are unlikely to succeed in the large-scale deployment of such weapons for roughly half a decade.

This process of "creeping proliferation," however, is inherently unstable. The Iran-Iraq and Gulf Wars demonstrated that states like Iran and Iraq are willing to make use of weapons of mass destruction. Iran and Syria have major programs that they can increase with relatively short notice and visibility. Iraq almost certainly has new "black" programs, begun since the Gulf War and hidden from UNSCOM, which it will expand the moment IAEA and UNSCOM inspections cease or are undercut.

The problems that Iran and Iraq face in funding and modernizing their conventional forces may lead them to place emphasis on weapons of mass destruction as a means of compensating for US and Israeli conventional strength. Neither Iran nor Iraq has displayed evidence of the kind of strategic thinking that is likely to build the stable balance of deterrence and carefully controlled escalation ladders that helped keep the Cold War from becoming a military disaster.

The risk of sudden and uncontrolled Iranian and/or Iraqi escalation is significant. Many Southern Gulf states and Israel, which have only one major city or heavily centralized regimes, are vulnerable. Iraq has already demonstrated that at least one Gulf state has prepared for a launch under attack capability. This illustrates the risk that a new Gulf War or series of US counter-proliferation strikes might lead to Iranian or Iraqi use of weapons of mass destruction.

Proliferation will allow Iran and Iraq to threaten US bases and power projection capabilities. It can erode some of the US "edge" in war fighting that deters Iran and Iraq, and undermine the willingness of Gulf and other Arab states to support the US in a conflict. Iranian and Iraqi proliferation also create the threat of preemptive or retaliatory strikes on Gulf states by Israel. Moreover, as Saudi Arabia's purchase of Chinese long-range missiles has shown, proliferation could become a new source of prestige in the Gulf arms race.

Thus, proliferation is making a steady shift in the nature of the Gulf military balance and in the risks posed by future conflicts. This is a major reason that the US gives such high priority to developing counter-proliferation capabilities of American and regional forces, limiting the transfer of related and dual-use technologies, continuing the efforts of the IAEA and UNSCOM in Iraq, strengthening regional arms control, and strengthening international agreements like the MTCR, NPT, CWC, and BWC.

Japanese military forces do not now plan to develop any significant counter-proliferation capability while European military planning has given such capability far less priority than the US. Japan and most European countries have supported stronger arms

control initiatives and have tightened their export controls. Yet, a number of Japanese and European diplomats privately express great skepticism about US charges that Iran is acquiring nuclear weapons and long-range missiles. France and Russia in particular are exhibiting growing signs of "sanctions fatigue" with respect to Iraq.

Clearly, there must be much more US-Japanese-European dialogue on this issue. The military risks involved are far greater than those involving conventional weapons. Japan and Europe require assurance that US concerns are based on credible evidence. Meanwhile, the US must be assured that it will have the full cooperation of its allies in containing Iran and Iraq, and supporting the operations of UNSCOM and the IAEA in Iraq. Japan and Europe must understand, however, that they cannot expect extensive "consultation" in an area where they make no contribution and take no risks. Similarly, it is naive for Japanese and European experts outside the intelligence community to expect to be extensively briefed, lest leaks occur.

5. *The Spread of Terrorism*

Japanese, European and North American cooperation in dealing with terrorism and counter-terrorism is considerably better at the intelligence and internal security level than many outside analysts realize. At the same time, these allies differ at the diplomatic and economic level over the seriousness of the threat posed by specific movements and nations.

Many Japanese officials, like their European counterparts, feel that the US exaggerates the terrorist activities of Iran and Iraq. In contrast, many US officials feel that France, Germany, and Switzerland tolerate activity on their soil that does not threaten their nationals or expatriates, and play down the risk that Middle Eastern terrorism poses for the US, the moderate Gulf states, and Israel.

These problems may become more serious in the future. Proliferation may gradually make weapons of mass destruction available to state-sponsored extremist groups or proxies, adding a new dimension to terrorism. The problems that Iran, Iraq, and various extremist movements face in competing with the US and its allies in conventional forces may lead them to make steadily greater use of unconventional warfare, special forces, state-sponsored terrorism, and proxies. Furthermore, a collapse of the Arab-Israeli peace process may lead to a new *intifada*, creating potential divisions between the US, Japan, and Europe over the definition of "terrorism."

6. *The Collapse of the Arab-Israeli Peace Process*

The Arab-Israel peace process is a grim demonstration that there is neither a "new world order" nor an "end of history" in the Middle East. Peace is reversible. In fact, a December 1996 public opinion poll in Israel found that 63 percent of Israelis feared the prospect of another war. Yasser Arafat has publicly threatened a new *intifada* while Egypt has talked about exercises targeting the Israeli "threat." Both Israel and Syria have threatened one another over the Golan and Southern Lebanon.

This "saber rattling" spills over into the Gulf. The US interest in Israel, and the Japanese and European focus on the Arab world, has led to natural divisions in policy that affect the attitudes of Gulf states and their peoples. These divisions will be unimportant if the peace process moves forward. However, they could present growing problems in terms of US influence and power projection capabilities in the Gulf if the

peace process stalls or collapses. This eventually could push Japan and Europe to choose between protecting their economic interests in the Gulf and maintaining normal relations with Israel.

Japan and the United States: Cooperation and Dialectics

The previous list of current and potential problems scarcely amounts to a crisis in US and Japanese (and European) policy toward the Gulf. Some of these problems have existed for years, and others may ameliorate themselves. However, the growing scale of the risks in the region deserve attention.

The near-term differences over policy towards Iran and Iraq could become much more serious, particularly if the US and Europe become involved in a mass legal battle over sanctions and Japan is caught in the middle. That these allies have not assigned high priority to energy emergency planning is short-sighted. The extraordinary degree of responsibility the US has assumed for power projection and counter-proliferation activity in the Gulf may be unavoidable, but it is not one that Europe and Japan can or should exploit to promote trade and investment. There is a clear need for continued cooperation and dialogue on "dual containment," with emphasis on the issues of arms control, the control of arms exports and export of dual-use items.

The mid to long-term risks involving energy investment, energy emergencies, Gulf economic development, and Gulf demographics also require attention. Market forces are powerful tools, but they do not solve every problem. The US and Japan must encourage the Gulf states to institute economic reforms, and thus address more effectively the region's structural problems.

The US and Japan, along with the European states, must cooperate to analyze and discuss all of these issues. Equally importantly, they must learn to tolerate and make constructive use of differences in national policy where cooperation is not possible.

Notes:

- ¹ The reserve and production data are adapted by the author from IEA, *Middle East Oil and Gas*, Paris, OECD, IEA, 1995, Annex 2; *International Energy Outlook, 1996*, DOE/EIA-048(95), pp. 91-216; and the EIA Oil Market Simulation Spreadsheet, data provided by the EIA Energy Markets and Contingency Information Division.
- ² *Ibid.*
- ³ The trends in gas are somewhat similar, but involve much smaller amounts of Gulf exports relative to world energy supplies.
- ⁴ A detailed graphic and statistical analysis of these trends is presented in the author's "The Changing Nature of Oil and Gas in the Middle East," CSIS Middle East Program Report, January, 1997.
- ⁵ See Table 2, *World Military Expenditures and World Arms Transfers* (Washington, D.C.: GPO, 1995).

- ⁶ See IMF, *World Economic Outlook*, Washington, IMF, May, 1996; World Bank, *Global Economic Prospects and the Developing Countries, 1996*, pp. 3, 16, 22, 84-85.
- ⁷ Estimates of this kind sharply vary. These estimates are drawn from work done by the World Bank and IMF. A parametric analysis of such sources and specific references is presented in the author's "Stability and Instability in the Middle East," CSIS Middle East Program Report, February 4, 1997.
- ⁸ *Ibid.*
- ⁹ See the study by Alain Jean-Pierre Feler and Oussama T. Kanan, "Macroeconomic and Structural Adjustment in the Middle East and North Africa," in the IMF, *World Economic Outlook*, Washington, IMF, May, 1996, pp. 98-105. For historical background, see Alan Richards and John Waterbury, *A Political Economy of the Middle East*, second edition (Boulder, CO: Westview Press, 1996). A parametric analysis of the trends involved is presented in the author's *Stability and Instability in the Middle East*, CSIS Middle East Program Report, February 4, 1997.
- ¹⁰ *The Economist*, January 25, 1997, p. 100.
- ¹¹ The reader should be aware that there are many ways to calculate such data, and that the purchasing power parity (ppp) estimates used recently by the CIA and World Bank are much higher. It is impossible, however, to make long-term trend projections using such data, even if the methodology is correct. These numbers are based on the author's conversion of the data provided in various editions of ACDA, *World Military Expenditures and World Arms Transfers* Washington, Table I, GPO, Washington, reviewed against estimates in World Bank, *The World Bank Atlas, 1996* and the CIA, *World Factbook, 1995*.
- ¹² These projections are conservative and assume a steady decline in the rate of population growth in the out years. The author has adapted them from Eduard Bos, My T. Vu, Ernest Massiah, and Rodolfo A. Bulatao, *World Population Projections, 1994-1995 Edition*, World Bank, Washington, 1995 and the CIA, *World Factbook, 1995*. The detailed data are presented in the author's *Stability and Instability in the Middle East*, CSIS Middle East Program Report, February 4, 1997.
- ¹³ See the author's *The Gulf Military Balance, Volumes I and III*, CSIS Middle East Program Report, January, 1997.
- ¹⁴ *Ibid.*
- ¹⁵ *Ibid.*
- ¹⁶ USCENTCOM background brief, January 28, 1997.

US-JAPAN RELATIONS AND THE PERSIAN GULF

Kazuo Takahashi

Above all, Japan wants stability in the Persian Gulf. Japan equates stability with uninterrupted energy supplies. Since the first oil crisis in 1973, Japan has tried to diversify energy sources and reduce its reliance on Persian Gulf oil. Yet, almost a quarter of a century later, Japan remains heavily, some would say dangerously, dependent on Persian Gulf crude oil.

Crude Reality

Since the 1973 oil shock, Japan has instituted a number of measures to reduce its dependence on Persian Gulf oil. First, Japan has invested in oil exploration and development. However, these efforts have not achieved significant results.

Second, Japan has pursued nuclear power generation. However, the experience of Hiroshima and Nagasaki has constrained these efforts. Since the Chernobyl nuclear power plant disaster, Japanese anti-nuclear sentiment has grown stronger. A recent fast breeder reactor accident in Japan has raised public apprehension. It is becoming increasingly difficult and expensive in Japan to obtain local approval to build new nuclear power plants.

Third, Japan has imported oil from Asian neighbors as a means of reducing its reliance on Gulf suppliers. Yet, as the Asian-Pacific economies have grown, so has the region's demand for oil. Asian oil-exporting countries have consumed an increasing proportion of the oil they have produced. In 1994 China became a net importer of oil. Indonesia is following suit. As a result of these trends, Japan's dependence on Persian Gulf sources has steadily increased.

Natural gas might appear to be a promising alternative energy source for Japan. However, the world's largest gas reserves are located in the Persian Gulf. In February 1997, a Japanese consortium signed a long-term supply contract to purchase substantial quantities of natural gas from Qatar. This ensures the continuation of Japan's dependence on Gulf energy resources.

Any discussion of Japan's interests in the Persian Gulf requires some consideration of Iran. Besides possessing the world's second-largest gas reserves, Iran is a major oil producer. Iran is a significant exporter of oil to Japan, and it could potentially become an important supplier of natural gas as well. In addition, Iran has a population of 60 million, and thus constitutes a large future market for Japanese businesses. From the Japanese perspective, Iran is the principal gateway to Central Asia's energy resources. Iran is the only country contiguous with the Persian Gulf and Caspian Sea, and the shortest land bridge between Central Asia and the Indian Ocean.

The Arabian Cocktail

A mixture of factors threatens the stability of the Persian Gulf region, and thus poses a danger to Japanese interests there. The ingredients of this volatile mixture, or "Arabian cocktail," include low oil prices, a population explosion, an augmented American military presence in the area, and an inevitable generational change in the region's political leadership.

Oil prices have remained low since the mid-1980's. This has led to lower export revenues for Persian Gulf countries. Non-oil producing countries in the area have also suffered because smaller amounts of cash from the region's oil economies have trickled down to them. The continuing unrest in Bahrain partly reflects the adverse effects of stagnant oil prices on society.

Region-wide demographic pressures have compounded the effects of low oil revenues. In fact, the Gulf is experiencing a "population explosion." There are many reasons for this. For example, in the case of Iran, the eight-year war with Iraq delayed the introduction of family planning program.

The countries of the southern Gulf have also experienced spectacular population growth. In Japanese there is a saying that "the poor have many kids." In the Gulf, however, rich as well as poor have tended to bear many children. In oil-rich Gulf countries with small populations, governments have encouraged the traditional practice of having large families. Also fuelling this tendency are suspicions by comparatively small southern countries that their more populous northern neighbors wish to dominate them.

There are few incentives in oil-rich countries like Kuwait and Saudi Arabia for couples to limit the size of their families. These governments provide free medical services and education, and furnish loans to citizens requiring housing, which alleviates pressure to limit family size. In general, when the education level of women rises, family size tends to shrink, as more women join the labor market. However, in Saudi Arabia, women are not encouraged to join the labor market, and few do. In Kuwait, a greater proportion of women participate in the labor force, but usually employ domestic servants. In effect, this removes some of the pressures and incentives to reduce family size. Since oil revenues, which have remained low, must be shared by larger populations, per capita income has declined. In the case of Saudi Arabia, per capita income is only one-third the level attained in the early 1980s. It is therefore unsurprising that a growing number of Saudis are showing signs of discontent.

The changing composition of Gulf populations is also significant. The majority of the region's population is under twenty years of age. This means that the number of

people seeking employment is increasing at a rate which the labor market is increasingly unable to absorb. For the first time since the 1970s, the younger generation must settle for less than their parents did. This crisis of expectations is leading many to seek solace in Islam. However, religion does not necessarily solve economic or political problems, as the examples of Islamic Iran, Afghanistan, and Sudan illustrate.

The expanded military presence of the United States in the region since the Gulf War is the third ingredient of the "Arabian cocktail." The rationale for this presence is the military weakness of the southern Gulf states. However, the large American deployment poses the risk of stirring nationalistic and religious feelings in Gulf societies. Heightening this risk is the United States' support for Israel and the tortuous path the peace process is taking. The recent case of Okinawa in southern Japan illustrates that a foreign military presence can incite popular discontent and contribute to friction between allies. In the Gulf, the danger is that the continued presence of US troops for protection might in fact undermine the legitimacy of Gulf rulers, thereby threatening their survival.

Precisely at the time when low oil revenues, demographic pressures, and the expanded US military presence have occurred, the Gulf region is entering a period of change in political leadership. Although the politics of the Middle East are often described as unpredictable, in the past decade the region has exhibited remarkable stability in terms of political leadership. In contrast to Japan, where eight prime ministers have held office in the past three years, Gulf countries have had only one king, one sultan, one emir, one sheikh, and one president. However, the next generation of Gulf leaders, though probably better educated than the present rulers, will lack their experience and perhaps their charisma. There is no guarantee that this transition of power will be smooth and peaceful.

The China Syndrome

In the new millennium Japan's energy problems may originate closer to home. One important factor that may make Japan's access to Persian crude oil more difficult is the emergence of newly industrializing economies in East and South East Asia. As already mentioned, since 1994 China has become a net importer of oil. Other economies in the region are following the same path. They will not only stop selling crude oil, but start importing it from the Persian Gulf. Malaysia is negotiating with Iran about investment in the Iranian energy industry. Indonesia will soon become a net importer of oil. Indonesia and Malaysia, which are Muslim countries, may be able to capitalize on their religious bond with the Gulf countries. China may offer conventional arms or nuclear technology for sale in order to gain leverage in the Gulf energy market. Whatever their tactics, Japan's rapidly industrializing and populous neighbors will soon become formidable competitors in the procurement of Persian Gulf crude oil.

Japan's Role in the Gulf

Japan cannot play a military role in the Persian Gulf region, for its Constitution forbids the deployment of the Self-Defense Forces (SDF) outside the country. As a matter of policy, Japan does not export weapons. Thus, economic resources, and perhaps cultural ones, are the only foreign policy instruments available to Japanese officials. However substantial, Japan's economic power can do little to alleviate the problems facing the Gulf countries. Influencing population trends and moderating religious sentiment in the Gulf are beyond the scope of Japanese diplomacy.

Nevertheless, when Japan's economic resources are mobilized and applied to specific purposes, their weight is felt. As previously mentioned, Japanese companies recently signed an agreement with Qatar for the long-term supply of natural gas in exchange for huge capital investments. Reportedly, the agreed price of gas was significantly higher than the prevailing market price. Japanese business leaders hardly complained. Perhaps this reaction reflects their confidence that they can pass on higher prices to the Japanese consumer. Perhaps they also value the stability of the supply and are prepared to pay for it. This leads to the perception in the Persian Gulf, and in Japan, that Japan can afford it. Although Japan may be prepared to absorb additional costs, Persian Gulf countries are more interested in attracting Japanese investment. In order to strengthen ties with the Gulf countries, Japan must increase investment in the region.

There are many obstacles, however, to Japanese investment in the Gulf. There exists a cultural and psychological "distance" between Japan and the Persian Gulf—not to mention a geographic one—that is difficult to bridge. Unfortunately, the Gulf work force does not enjoy the reputation of cheap wages or hard work. The Japanese businesses that have invested in the Middle East have tended to choose Turkey over the Gulf. For example, Toyota has a factory near Istanbul, as does the Bridgestone Tire Company. Both are gaining a reputation in Europe for the high quality of their products. Honda will soon start manufacturing automobiles in Turkey. Furthermore, Gulf countries are competing globally, not just regionally, for investments. They have formidable rivals like Vietnam and India.

Although Persian Gulf officials profess a sincere desire to attract Japanese business investment, they have been unable or unwilling to institute measures to facilitate it. In general in the Gulf region, a labyrinth of bureaucratic red tape awaits the prospective investor. For this reason, and others already mentioned, Japanese businesses have shown little enthusiasm about investing in the Gulf.

Tying One's Hand Behind One's Back

In developing regions other than the Persian Gulf, Japan's economic assistance (ODA) program is the cutting edge of its foreign policy. Japan offers *yen* loans at low interest rates. This sharp instrument has allowed Japan to cut into the markets of China and Indonesia, to mention just two major recipients. However, Japan is restricted by law from offering *yen* loans to the Gulf or any other coun-

tries whose per capita income is relatively high. The rationale for this is that Japan's ODA is primarily an humanitarian effort.

Although Saudi Arabia does not need *yen* loans, Bahrain, for example, could make good use of them. Under current Japanese law, Bahrain's high per capita renders it ineligible for these loans. Yet, because of the small size of Bahrain's population, its government faces difficulty mobilizing domestic investment. Self-imposed restrictions on disbursing loans deprive Japan of opportunities to make potentially valuable contributions to Gulf stability.

Also lacking are sufficient incentives by the Japanese government to Japanese firms in order to stimulate investment in the Gulf. Active promotion by the government of Japan has helped to generate *yen* investment flows to Vietnam. If Japanese policy makers regard private sector investment in the Gulf as a priority, they must institute measures to facilitate it.

Damned if We Build and Damned if We Don't

There is no major conflict of interest between the United States and Japan in the Persian Gulf. Peace and stability in the region are goals these partners share. However, there are considerable differences between them regarding how to achieve these objectives.

Regarding the countries of the Arabian Peninsula, one can argue that there exists a profitable division of labor between the United States and Japan. The former makes money selling arms and other manufactures to the southern Gulf countries while the latter purchases a great deal of Gulf petroleum from them. The petrodollars enable Gulf countries, among other things, to pay for the latest arms shipments. (Although sovereign states claim the right to decide their own defense needs, one sometimes wonders whether large arms acquisitions promote security or merely contribute to building personal and corporate fortunes.)

The main difference between Washington and Tokyo regarding the Gulf region is policy toward Iran, not arms sales by the United States to the Arabs. Regarding Iran, American and Japanese perceptions and opinions tend to diverge. In order to induce a change in Iran's international behavior, is it better to try to isolate Iran, or engage the regime in dialogue? Americans have adopted a hard-line approach which relies on "sticks," while Japan has preferred a more soft-spoken approach which offers a few "carrots." No one knows which approach will in fact work. Perhaps neither approach. Yet it is possible to argue, taking Cuba and North Korea as prime examples, that isolating a country hardens the system and helps to entrench "hardliners" within it.

An illustration of the "soft-spoken" approach is Japan's 1993 offer to extend a *yen* loan to Iran to finance the building of a dam and hydroelectric plant on the Karun River. Under pressure from Washington, however, these loans were suspended following the disbursement of the first of four *tranches*. Iranian officials viewed the suspension as an indication that Japan cannot be trusted to fulfill its pledges. Given the purpose for which the loan was to be used (i.e., to generate electricity), US policy in this instance seems to have kept Iranians literally in the dark.

From Revolution to Evolution

Change will come to the Persian Gulf countries one way or another. Given that change stems primarily from domestic factors, there is probably little that outside powers can do to influence the course of events in the Gulf region. Meanwhile, no matter what happens in the region, and who holds power there, Japan must purchase oil and gas from Gulf producers. Perhaps the only comfort is that the rulers of Gulf oil-producing countries also have no alternative; they must export these commodities.

Sooner or later, the regime in Iraq will collapse. Thereafter, the major challenge will be to maintain the unity of the country, and, if possible, forestall the reemergence of a dictator. Preventing Iraq from sliding into civil war like Afghanistan, and assisting the Iraqi people to rebuild their country, is the responsibility of the international community as well as Iraqis themselves. Iraq is far too important to be allowed to destroy itself. Cooperation among neighboring states (including Iran) and outside powers is a prerequisite for preventing Iraq's self-destruction.

Iran remains the key to the Persian Gulf. There is a debate about its international behavior, but its society is steadily changing. Iranians respond to Islamic slogans with little enthusiasm. Their waning commitment is reflected in the composition of the Iranian parliament elected in 1996, which contained fewer conservative *mullahs* and more women than ever. The city of Tehran is cleaner, bedecked by flowers rather than revolutionary graffiti. Capturing the sentiment of the times, big Iranian hotels have begun to honor major credit cards like Visa and Master Card.

Just eight years have passed since Ayatollah Khomeini's death, and only nine years have elapsed since the Iran's war with Iraq ended. Recognizing that it takes time for revolutionary fervor to cool down, the best course of action for outside powers to adopt may be simply to allow this process to continue. Meanwhile, one hopes that US policy towards Iran will correspondingly evolve.

THE MIDDLE EAST PEACE PROCESS AND JAPAN

Seiichiro Noboru

Promoting the Middle East Peace process is vitally important to Japan for two reasons. First, Japan regards its engagement in the peace process as an international responsibility to contribute to world peace and stability. Particularly since becoming a member of the United Nations Security Council in 1997, Japan has prepared to respond more effectively to regional problems which, if left unattended, could have serious adverse global consequences.

Second, Japan's involvement in the peace process stems from its dependence on the Middle East for 80 percent of its oil imports. In the near future, the rapid economic growth of Japan's Asian neighbors is expected to lead to rising oil demand and a shift in their oil imports to the Middle East. As a result, the stability of the Middle East will assume even greater importance for Japan, and Asia as a whole. The success of the peace process is the precondition to maintaining stability in the Middle East, and thus Japan must pursue this goal.

Japan's Contribution to the Peace Process

Japan's historical and cultural ties to the Middle East are less extensive than those of Europe and the United States. This has to some extent constrained Japan. Nevertheless, Japan has been involved in the peace process since its inception at the Madrid Peace Conference.

The primary objective of Japan's involvement in the Madrid process is to support bilateral negotiations by the parties concerned, as well as participate in the multilateral framework. Japan regards this process as the only realistic option for achieving peace in the region, and has encouraged all the parties concerned to undertake negotiations based on the relevant UN Security Council resolutions and the principle of land for peace. Japan has adopted a slightly different approach from that of the Europeans, preferring not to act independently, but rather to cooperate closely with the United States. Japan has mediated between the relevant parties, assisted them when they have

needed help to maintain their efforts for peace, and promoted multilateral regional cooperation.

Japan has adopted a modest, but hopefully constructive, approach to consolidating the international community's support for peace. To a limited extent, Japan has engaged in bilateral negotiations. Through direct contacts with the region's leaders, Japan has shown consistent strong support for the peace process. Over the past five years, Japan has intensified the exchange of official visitors. For example, in 1995 Prime Minister Murayama travelled to the Middle East, and the next year Foreign Minister Ikeda visited the region. Meanwhile, the leaders of Egypt, Israel, Lebanon and the Palestinian Authority all accepted invitations to visit Japan. In these meetings, Japanese officials have held frank discussions with their Israeli and Arab counterparts. Whenever possible, through face-to-face dialogue, Japan offers advice and encouragement to Middle East leaders regarding the peace process.

Japan has also been very active in the multilateral talks. Notably, Japan participated in the creation of the multilateral framework, volunteered to chair the Environment Working Group, and has contributed to the Working Groups on Water Resources, Regional Economic Development, and Refugees. Japan's contribution to these endeavors has included an "intellectual" or "creative" component: ideas and proposals to build frameworks for regional cooperation and to move the multilateral process forward. Happily, the Working Groups have produced tangible results, such as the enactment of an Environmental Code of Conduct, the establishment of the Middle East Desalination Research Center in Oman, the formation of the Middle East and Mediterranean Travel and Tourism Association (MEMTTA) in Tunisia, and the creation of the Bank for Economic Cooperation and Development in the Middle East and North Africa based in Cairo. In addition, Japan has participated in the Middle East and North Africa Economic Summit, where efforts to encourage private sector activity in the region have gained momentum.

Japan's involvement in the peace process also entails a physical presence. In January 1996, Japan sent 77 election observers—a number second only to that of the EU delegation—to oversee the election of the Palestinian Council. The following month, Japan dispatched a forty-five member military contingent to join their Canadian, Austrian, and Polish counterparts to serve as the United Nations Disengagement Observer Force (UNDOF) in the Golan Heights.

Financial support for the parties concerned is another pillar of Japan's Middle East diplomacy. Japan is now one of the leading providers of economic assistance to Egypt, Jordan, Syria and Lebanon. This aid focuses on raising living standards and upgrading infrastructure for economic and social development. Japanese assistance to the Palestinian Authority to finance economic and social welfare programs, amounts to more than \$250 million and represents the largest contribution from a single donor.

Japan's Future Role in the Peace Process

Japan has paid continuous close attention to the course of the peace process. From the Japanese viewpoint, the parties concerned have made recent progress, but face many difficult challenges in their pursuit of peace. The Hebron agreement was a

breakthrough for the Palestinian Track. It was the first agreement made by the Likud administration led by Mr. Netanyahu, who had criticized the Oslo agreement but now endorses it. Japan welcomes action by both sides to implement the agreement, such as Israel's release of female Palestinian prisoners. Furthermore, Japan applauds the efforts of those who brought about the agreement and are pushing for further achievements, particularly the US mediators.

However, the road ahead is likely to be a bumpy one. The Palestinians and Israelis will confront difficult issues such as further Israeli troop redeployments and final status negotiations over Jerusalem, refugees, and borders. There also exists the continuing threat of terrorism and violence. Furthermore, requiring more attention than it has received is the Syrian track, which was suspended one year ago. As a result, distrust between the parties seems to have grown. Syria seems disinclined to take the lead in resuming negotiations. Israel must take the initiative, Syria must understand the difficulties which Israelis face, and the US must play a role to bridge the gap between the parties.

To overcome these difficulties and reinforce the momentum generated by the Hebron agreement, Japan must assist by all means possible those who are striving to move the peace process forward, and must help to nurture an environment conducive to peace. Japan can and should play this role in particular ways.

First, Japan should, whenever necessary, serve as an advisor to the parties concerned at critical junctures in their negotiations. As mentioned earlier, Japan has remained in close contact with the parties through an exchange of high-level visits. Japan should continue to use these visits as opportunities to encourage the parties concerned to pursue peace, and to show willingness to help mediate their differences.

Second, Japan should intensify its engagement in the multilateral talks. Japan should explore ways to revitalize the multilateral process, which has stalled due to the recent stalemate in bilateral talks. Following the Hebron agreement, Japan made a *demarche* to Arab leaders, requesting that they initiate or resume their involvement in the multilateral framework. As a further means to energize the process, Japan would like to convene a meeting of the Steering Group of the multilateral talks, at a sub-Cabinet level, possibly in Tokyo. From the Japanese viewpoint, this framework is the model for a future Middle East regional organization similar to the OECD or OSCE. Accordingly, Japan is fully committed to upgrading the ongoing activities of all the Working Groups as well as expanding the scope of cooperation.

Third, Japan should continue to provide economic assistance to the parties concerned. Of the various projects being studied or implemented, the construction of the Suez Canal Bridge and the reconstruction of the Allenby bridge over the Jordan River are the projects that symbolize our interest to act as a bridge between the parties in the region.

Fourth, Japan should further develop its cooperation with the United States to advance the peace process. Japan appreciates the initiatives taken by the US in promoting the peace process, and is prepared to extend all possible support when the US requests it. Moreover, Japan is keenly aware of, and must carefully avoid taking any action that might impede US efforts in the peace process. Collective engagement by the international community is the most effective way to resolve the Arab-Israeli conflict; Japan has and will support American initiatives in this regard. Joint *demarches* by the

US, the EU and Japan may prove to be necessary in the future to further promote the peace process. A meeting by these parties may be necessary to coordinate their activities. Meanwhile, the United States, Japan, and European countries should cooperate in developing a unified approach to the peace process.

THE UNITED STATES, JAPAN AND THE PEACE PROCESS

William B. Quandt

On the surface, the United States and Japan seem to have similar interests in the Middle East. Both depend on the free flow of Middle East oil at moderate prices, are generally *status quo* powers, benefit from stability and peaceful change, and support the goal of a comprehensive Arab-Israeli peace. But common goals do not necessarily lead to common policies, nor do they ensure identical views regarding tactics. Differences between the United States and Japan are evident in their policies toward the Arab-Israeli peace process.

It is not surprising that Washington and Tokyo approach the peace process from different perspectives. After all, the United States has been more intimately involved with the negotiations over a longer period and has not welcomed the involvement of any outside power—Europe, Japan, or the United Nations. At times, this proprietary American attitude toward the peace process has led to friction in US-European relations, but only rarely in US-Japan relations. Divergences between the United States and Japan regarding the Arab-Israeli conflict reflect their fundamentally different interests in the peace process.

Historically, United States policy in the Middle East stemmed from three major interests: the containment of Soviet influence, access to oil at moderate prices, and support for the independence and security of Israel. US policy makers tended to believe that the best means for securing these potentially divergent interests was the promotion of peace between Israel and its Arab neighbors, and the maintenance of the balance of power in the region in favor of Israel and "moderate" Arab regimes. Until US-Soviet rivalry ended in 1990, most American policy makers saw Middle East issues through the lens of Cold War competition. In the early decades of the Cold War, US policy makers regarded Israel as an unwelcome burden. Yet, by the 1980s they viewed Israel as a strategic asset, and justified support for Israel in those terms.

Upon close examination, it is clear that American interests in the Middle East involved strategic, economic, and domestic political considerations. It is also clear that a policy which might well-serve one of these interests, might ill-serve the others. For

example, courting and selling arms to Saudi Arabia might support the goal of access to oil. Yet, the practice of arming a potential Arab adversary of Israel might be at variance with the objective of protecting the Jewish state. Sometimes Washington has pursued policies that seem schizophrenic, simultaneously cultivating regimes that are at loggerheads in the peace process.

In contrast to the US interest in the peace process, Japan's interest is one dimensional and more shallow. Japan's primary interest in the Middle East is access to the region's oil. Insofar as Arab-Israeli peace helps produce stability, Japan favors the peace process; however, the main focus of its national interest is the Persian Gulf, not the Eastern Mediterranean. Accordingly, the level of interest in Arab-Israeli peace varies greatly between the two capitals. In Washington, this topic is always close to the top of the agenda: many Congressmen and Senators take a serious interest in the issue; a sizeable part of the bureaucracy works on the peace process; the president is involved from time to time; and the press carries stories on a regular basis. In Tokyo, the issue is far less salient, for understandable geostrategic and political reasons.

These differences of interests between the United States and Japan have produced an asymmetry of engagement, and a disparity of power and influence in the peace process. No one disputes that the United States has been the most active non-Middle East power in the peace process since the 1967 Arab-Israeli War. Japan has more often been a bystander, offering cautious support and occasional concrete efforts, but for the most part focusing on other issues. The United States, with its sizeable aid programs and its military power in the region, carries a "big stick" even if it may not always be prepared to wield it. In contrast, Japan maintains a low profile, relying on quiet diplomacy to express its views. Japan holds positions on the issues at stake in the Arab-Israeli conflict, but refrains from taking bold initiatives. In contrast, the United States takes pride in its role as the catalyst and privileged mediator of the peace process, and is results-oriented. Whereas they might feel some irritation with one another's attitudes, US and Japanese officials have rarely clashed over the Arab-Israeli conflict. Unlike the Europeans, who occasionally try to challenge American preeminence or complain about the "pro-Israeli tilt" of American policy, Japanese leaders mask their differences on these issues, saving their ammunition for more contentious bilateral issues such as trade and Asian security.

Japanese leaders are aware of American sensitivities concerning the peace process. They know that Washington will not welcome advice from Tokyo. When the peace process seems to progress, there is little reason for Japanese politicians to do much other than offer support. However, when the peace process stalls or is in danger of collapse, Europeans and Japanese tend to get nervous and urge the United States to use its undeniable influence with Israel to break the logjam. Washington, which rarely appreciates such advice, has become accustomed to hearing it, and has generally ignored it.

The Evolution of US Thinking on the Peace Process

American officials have never been of one mind regarding how best to promote Arab-Israeli peace. Not only have there been well-known bureaucratic rivalries and

clashes of strong personalities, but there also have been serious differences of judgment about key relationships between policy and interests. Still, over the past thirty years, a consensus among policy makers has developed on a number of occasions. Definitions of national interest have remained fairly stable, but details of policy have shifted significantly.

Prior to the 1967 War, the United States counted on the passage of time to ease tensions in the Arab-Israeli conflict. From the time of the Suez crisis onward, although no one in Washington saw a chance for a negotiated settlement, no one expected an outbreak of war. This reassuring consensus was shattered on June 5, 1967. When the "Six-Day War" ended, the Johnson Administration decided to support Israel in its quest for a formal, contractual peace with its Arab neighbors. This position was codified in UN Resolution 242. As explained by American officials, this "land for peace" formula, meant that Israel was not required to withdraw from captured territories for less than peace; but, if peace were offered in convincing terms, then Israel should return nearly all of the land taken in 1967. The initial expression of this view was contained in the formulation that the final borders between Israel and the Arab states "should not reflect the weight of conquest," but should allow for "mutually accepted minor border rectifications."

In this early phase of the peace process, the United States adopted a position on the negotiating parties: Egypt, Syria, and Jordan would speak on their own behalf while Jordan would play a leading role in articulating Palestinian concerns. The US acknowledged that the claims of Palestinian refugees would have to be addressed, but did not recognize the Palestinian Liberation Organization (PLO) as their representative. This issue became a major bone of contention between the United States and most European states, and to a lesser degree between the United States and Japan.

On the sensitive issue of Jerusalem, the United States adopted an equivocal position. It rejected Israel's unilateral annexation of the eastern sector of the city, upheld the city's unification and openness, and piously urged the parties to seek a negotiated mutually acceptable formula. Washington believed that this issue would be the most difficult to resolve and should be left until the very end of the negotiating process.

On procedural matters, initially the United States was relatively pragmatic. The United States relied on the United Nations to establish the framework of UN Resolution 242, agreed to convene bilateral talks with the Soviet Union, and held "four-power" talks that included Britain and France alongside the two superpowers. The United States did not take too seriously the Israeli insistence on direct negotiations, and instead opted for a variety of mediatory efforts and indirect talks. In this early period, American officials generally felt that the parties were too far apart to take advantage of direct negotiations. Consequently, they concentrated on forging an international consensus regarding basic principles for a settlement. The Americans knew about secret contacts between Israel and Jordan, but had little confidence that these talks would lead to concrete agreements.

In the early 1970s, the assertion of Henry Kissinger's influence over American Middle East policy led to a shift from an attempt to develop common principles for a settlement toward a "balance of power" approach that would convey to the Arabs the futility of trying to drive a wedge between Israel and the United States. Kissinger believed that only when the Arabs realized that they could not regain their territory by

war and could not manipulate the United States into pressuring Israel for unilateral concessions would they agree to the concessions needed for peace. He was also alarmed by the close ties which some Arab states - notably Syria and Egypt - had with the Soviet Union, and determined to convey the message that the United States would not exert itself on behalf of Soviet clients. Kissinger believed that if the Arabs wanted American help, they would have to distance themselves from Moscow. In the meantime, the United States would increase its military support for Israel. In 1972, Anwar Sadat put the US to the test by expelling Soviet advisers, but Nixon and Kissinger, preoccupied with the final stages of the war in Vietnam, were unresponsive. Not until Sadat and Syrian president Hafiz al-Asad launched the surprise attack on Israel on October 6, 1973 did they succeed in capturing Kissinger's attention.

When the October War ended, Arabs and Israelis turned to the United States to open the way toward a negotiated settlement. The Arab oil embargo caused the American public to understand the connection between the peace process and their own economic well-being. From November 1973 to May 1974, Kissinger's "shuttle diplomacy" resulted in interim agreements on the Sinai and Golan fronts. Concomitantly, Kissinger forged a firm strategic relationship with Anwar Sadat which helped produce one more agreement on the Egyptian front, Sinai II.

Under the Carter administration, the United States departed from Kissinger's "step-by-step" approach to negotiations. Carter and his colleagues believed that the time had come to focus on the principles for an overall settlement, pushing forward on the Egyptian front, but not ignoring the others. In addition, Carter, who was persuaded that the Palestinians had to be included in the negotiations, sought, albeit futilely, a formula whereby the PLO 6-20 would accept UN Resolution 242 in return for official talks with the United States. Thus, Carter brought into question the "Jordan option," though he never abandoned it.

Sadat's surprise trip to Jerusalem in November 1977 forced the United States to modify its strategy of working for a comprehensive peace. A new "Egypt first" emphasis resulted in the September 1978 Camp David Accords, a detailed plan for Egyptian-Israeli peace accompanied by an ambiguous outline for dealing with the West Bank and Gaza. Most Arab regimes, along with the PLO, rejected the Camp David approach. Nevertheless, Egypt concluded a bilateral peace agreement with Israel, which led to an attempt by other Arabs to isolate Egypt for the next ten years.

The Egyptian-Israeli peace accord held the promise of no more war in the region, but Israel's unresolved conflicts with the Palestinians and Syria left plenty of fuel for violence. During the 1980s American policy tended to be very pro-Israeli. The Reagan administration sought to revive the Jordan option when, after the 1982 Israeli intervention in Lebanon, the PLO appeared weakened. Unlike its efforts to convince Israel and Jordan to negotiate a peace agreement, the United States regarded Syria—a Soviet client and a supporter of radical Palestinian groups—as basically unfit for the peace process.

In 1988, one year after the onset of the Palestinian *intifada*, King Hussein formally withdrew Jordan's claim to the territory, stating that henceforth the PLO should speak for the Palestinians there. This put the Jordan option to rest. Quiet diplomacy in the closing months of the Reagan administration produced a breakthrough in which the PLO renounced terrorism and accepted UN Resolution 242 and Israel's right to exist,

paving the way for the opening of an official dialogue with the United States.

Unlike their predecessors, President Bush and Secretary of State James Baker came to see the hard-line Israeli policy on issues, such as building new settlements in the occupied territory and refusing to talk to the PLO, as obstacles to peace. American policy became more outspoken in criticizing the government of Yitzhak Shamir for its policies of expropriating Arab land and building new settlements, including in east Jerusalem. Shamir was indignant, but unwilling to stop these controversial practices. This led to severe strains in US-Israeli relations and a near collapse of the peace process.

Iraq's dramatic military defeat in Operation Desert Storm opened the way to a new phase in the peace process. In summer 1991, Secretary Baker set out to convince all the parties to make a renewed commitment to the peace process, emphasizing the need for movement along several parallel tracks. Baker's efforts led to the convening of the Madrid Conference which, though largely of symbolic importance, provided a multi-level structure for future negotiations. For the first time, it opened the way for participation by European countries, Canada and Japan as chairs of the various multilateral "working groups."

The Shamir government rejected the "confidence building" or "ripening" school of diplomacy represented by the Madrid approach. In 1991, when Israel requested a \$10 billion US loan guarantee, Bush and Baker exerted pressure on Shamir to discontinue new settlement construction. Shamir's adamant refusal created an uproar in Israel and weakened his domestic political position. In the 1992 Israeli elections, the Labor Party, led by Yitzhak Rabin, returned to power without the right-wing Likud as a coalition partner. Anticipating that Israel would show flexibility in negotiations and that the Arabs would move toward direct negotiations, the US viewed its role as facilitator more than mediator.

The relatively passive, procedural role suited the new Clinton Administration quite well. The president did not know much about the Middle East, though he was acutely aware of domestic public opinion and thus unwilling to pressure Israel for concessions. At the same time, he and his colleagues were genuinely eager to help the parties make peace, provided a means could be found that would generate little controversy. Much of Clinton's first year was spent in a frustrating effort to get the parties to deal with one another in the semi-public atmosphere of the "Washington talks." Behind the scenes, however, Israeli and PLO officials met under Norwegian auspices, without direct American involvement, to work out a first-step agreement and the terms of mutual recognition. The United States added its support to this effort, arranging for Yitzhak Rabin and Yasser Arafat to seal the agreement with a handshake on the south lawn of the White House on September 13, 1993.

The Oslo Accord, as it came to be known, was not the product of American diplomacy, although it borrowed heavily from the Camp David Accords. Since the parties had crafted their own framework agreement, Washington was inclined to let them put it into practice without much direct American involvement. What remained unclear, however, was what would happen if the parties failed to agree, and how the Americans would view the passage of time.

For the most part, the translation of Oslo into practical agreements was left to the parties, while Clinton and his team of "peace processors" concentrated on the Syrian-

Israeli front. By late 1995, it seemed as if the parties were reaching broad agreement on basic principles. At that point, Rabin had to decide whether to proceed with or defer an agreement with Syria until after the 1996 Israeli elections. Before making this decision, Rabin, who seemed reluctant to move forward on the Syrian and Palestinian tracks simultaneously, was assassinated. A series of Palestinian terror attacks inflicted unprecedented losses on Israeli civilians, and in May 1996 Israelis narrowly elected Likud leader Benjamin Netanyahu as Prime Minister.

The American strategy up until then had assumed that Israel and the neighboring Arabs were intent on reaching agreement. That assumption had to be examined. Netanyahu's election rhetoric gave little cause for optimism, as he questioned the Oslo Accords, criticized the PLO, and claimed that Israel would never agree to leave the Golan Heights or the remainder of the West Bank.

This past year has been a difficult one for the American philosophy of building peace by incremental steps. Agreements that had been reached under the Labor government have been renegotiated at Israeli insistence; informal understandings on withdrawal in both the West Bank and Golan have been rejected by Netanyahu. Whatever trust had begun to develop between Israeli leaders and their Arab counterparts has dissipated, and Arab countries have put their relations with Israel on hold. Yet the American team still seems to believe that there is no need to reconsider the premises of policy. Clinton has changed virtually all of his foreign policy advisers for his second term, but not his Middle East peace team. The apparent hope is that, by gentle persuasion, Netanyahu will see the need to negotiate. For the moment no one wants to talk about the possibility that this will not occur.

The Hebron agreement convinced optimists that negotiations can still work. Yet many of the details for the next phase remain to be worked out. Moreover, the path ahead looks very rocky. If the American-led negotiations falter, Europeans and Japanese can be expected to show signs of anxiety.

American Views of Japan's Role in the Peace Process

Generally, the United States has not welcomed European efforts to play a role in Arab-Israeli diplomacy. The United States has displayed the same proprietary attitude when Tokyo has pursued a slightly independent path in the Middle East. However, for the most part Washington has exhibited little concern about Japan's involvement in the peace process, which has been sufficiently supportive of American efforts.

Still, Japan casts a larger shadow on the peace process today than it did 30 years ago. In the early 1970s Washington began to take Japan seriously as a concerned party in Middle East affairs. At that time, Ryohei Murata, who was responsible for Middle East affairs at the Japanese Embassy in Washington, contacted many officials who dealt with the Middle East. Murata's knowledge and professionalism opened many doors to him, and soon he routinely briefed Japan fully on Middle East developments. Much of Tokyo's interest focused on the Gulf, though the peace process was always part of the discussion. From then on, the Japanese Embassy in Washington has had one or two Middle East experts assigned to it. In recent years, some have been fluent speakers of Hebrew and Arabic, something of

Arabic, something of a change from the early years. In short, Japan's diplomatic corps has become professional in its approach to the Middle East. Apart from Britain and France, no ally is kept more abreast of US Middle East policy than Japan.

Americans have witnessed the evolution of Japan's policy in the Middle East from a fairly narrow interest in oil to a broader concern for strategic and political issues as well. At the time of the 1973 War, some in Tokyo seemed to think that Japan could obtain preferential treatment from the Arabs in exchange for distancing itself from US policy or dealing with the PLO. They feared that big American and European oil companies would favor their own national consumers and cut Japan off from oil supplies. Few people in Washington or Tokyo really understood how the oil market worked. In fact, regardless of orientation toward the Arab-Israeli conflict, all countries faced higher oil prices, and oil companies were quite equitable in distributing available supplies. Uncertainty initially drove the spot market to great heights, but eventually market forces reasserted themselves. Since the mid-1980s, we have learned to live with OPEC without panic or illusions. No one talks now of the need for a guaranteed supply of oil from the Gulf to Japan. Such guarantees do not exist, are unenforceable, and not worth paying a premium.

A better understanding of the oil issue has led to the realization that Middle East peace and stability are a good foundation for the smooth working of the oil market in the region. The problem lies in how best to promote that stability. In addressing this problem, Japan has pursued a somewhat more active policy toward the peace process, developing bilateral ties with all the parties and using "soft voice" diplomacy to support it. Japan has provided valuable aid and investment to Jordan, Egypt and the Palestinian Authority, and has chaired the working group on economic development. On the whole, the American view of Japan's role in the peace process seems quite positive. But this does not mean that Japan's role is a matter of great concern to the United States. In fact, there is a tendency in Washington to take Japan's involvement in the peace process for granted. Because this could lead to future misunderstandings, it is important to maintain good channels of communication between the United States and Japan at the working level.

Evaluating American and Japanese Policies

Any policy must be judged by the pragmatic standard of how well it serves the national interest. According to that standard, the policies of the US and Japan toward the peace process can be considered successful. They have satisfied their essential concern for Middle East stability, access to oil, Israeli security, and relative moderation in key Arab countries.

Yet Washington and Tokyo committed mistakes that they perhaps could have avoided. The United States, for example, was slow to recognize that Sadat was ready to make peace with Israel. Especially in the 1980s, Washington tended to overestimate Soviet influence, and thus failed to devise policies that might have encouraged Arab regimes to part ways with Moscow sooner. The United States clung to the "Jordan option" too long, and was slow to deal with the PLO. In addition, in 1981 the US position on Israeli

settlements activity shifted, yielding to the argument that settlements were undesirable rather than illegal. As the result of the unchecked building spree which ensued, the idea of Israeli withdrawal from the West Bank is open to question. Furthermore, the United States can be criticized for being too slow to close the deal between Israel and Syria. Finally, one can argue that the US has shifted its emphasis too much from substance to process.

On the positive side of the ledger, American diplomacy has succeeded in convincing most Arabs that Israel is here to stay. Arabs are now inclined to take Israeli security concerns seriously (although they resent the double standard that allows Israel to have nuclear weapons while it bans them from any Arab party). In its relations with Egypt, Washington has demonstrated that an Arab country which makes peace with Israel can count on tangible US economic and military support. The Madrid architecture for negotiations shows a sophisticated understanding of the interconnections among the parts of the Arab-Israeli peace puzzle.

It is more difficult to provide a fair evaluation of Japan's policy. For the most part, Japan has been a marginal player in the peace process, though it has come to a better understanding of Arab-Israeli dynamics and has tried to support the move toward peace. It is tempting to say that Japan has been excessively cautious, but that would assume that Japan could conceivably have played a more effective role. Yet, as Japan's international role expands, one can expect greater involvement by Tokyo in the peace process. This might take the form of special economic relations between Japan and key Middle East players, predicated on the belief that economic development will reinforce stability and peace. More frequent exchanges of visits by Japanese and Middle East leaders are likely to occur. The Japanese press are apt to devote greater coverage to the Middle East, and school curricula may devote more attention to the region. Japan, a country admired in the Middle East, would be welcomed as a partner in building the foundations for peace and as a model for economic development. Jordan, Palestine and Syria are likely to display strong interest in a larger Japanese role.

Looking to the Future

Bringing the Arab-Israeli peace process to a successful, mutually acceptable conclusion is by no means a foregone conclusion. A prolonged stalemate in the negotiations or a breakdown in the process could lead to serious debates in the United States and between the United States and its allies over how best to proceed. Yet, for the moment, let us assume that the negotiating process will move forward on both main tracks. In this case, there will be little argument among the United States and its allies over the desirability of a comprehensive peace.

It is possible to describe the shape of peace under this optimistic scenario. After a period of years for "testing" the intentions of its neighbors, Israel will have to return most of the territory it seized by force; some border adjustments in its favor will be made in the West Bank; most settlers will leave while some will be incorporated into Israel; Jerusalem will remain an open city, with some Palestinian political presence in the eastern sector; refugee claims will be met through a global compensation and resettlement fund underwritten by the international community; and a Palestinian state

with most of the nominal attributes of sovereignty will join the United Nations. There will, of course, be security arrangements that limit the military power of the new state, and international aid to bolster its economy. Meanwhile, the Golan will be recognized as Syrian sovereign territory; arms limitations along the new border, as well as early-warning stations will be instituted; Syria will agree to normalize relations with Israel; and both countries will commit themselves to respect Lebanese sovereignty and refrain from intervention in each other's affairs.

The difficulty lies in reaching these outcomes. Much of the hard work will involve convincing Israelis to make concessions on territory and settlements. It will also entail persuading Arabs to accept less than they had hoped for regarding a Palestinian state, as well as intrusive security arrangements.

It is pointless to speculate about the precise tactics that will be most effective in steering the negotiations to this end. Undoubtedly, the United States will continue to play the lead role. Yet, after establishing the outline of a comprehensive settlement, the United States will probably be eager for support from allies like Japan in finding points of leverage to persuade reluctant Israelis and Arabs to take risks for peace. As the emphasis shifts from peace making to peace consolidation, unilateralism is likely to give way to multilateralism.

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“Japan has been more and more prepared to play a role [in the Middle East] not only economically, but politically as well.... The 1990-91 Gulf War made a great impact on our attitude towards international problems.... We began to realize that there is a limit to what we can accomplish by financial means alone.... Bilateral cooperation between Japan and the United States in the Middle East stands as a prime example of the US-Japan relationship, benefiting the world as a whole.”

—*Japanese Ambassador to the United States Kunihiko Saito*



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