APRIL 2013 ISSUE NO 6

GULF ASIA

RESEARCH BULLETIN

Gulf Research Center Knowledge for All

Asia's presence in the Gulf region has in recent years expanded beyond the traditional areas of trade and investment, to an increasingly wide range of areas including energy security and knowledge-based industries. Reflecting the expansion of Asia's influence, the Gulf Research Center (GRC) has extended its focus to studying the Gulf-Asia relationship in-depth.

Among the areas of interest for GRC are international relations and energy security as well as political and economic issues. Our aim within these areas is to provide opportunities for discussions, research and consultations not only for public and academic organizations, but also for private entities. We would like to offer our knowledge and experience to support the activities of both public and private companies, which may already have established themselves within the region, or are seeking to do so.

Over the last decade, East Asia's economic strength has grown significantly, with China ranking second in terms of global GDP, Japan third and the Republic of Korea 15th according to the IMF 2011 rankings. This growth is reflected in a stronger and more visible presence in the Gulf region, not only in energy-related trade but also across a growing number of sectors. The Kingdom of Saudi Arabia remains the biggest economy in the Gulf region. Japan has been the largest investor from Asia into the Kingdom between 2009 and 2010, with China, Malaysia, and Republic of Korea following. Historically, Japan's investments were almost exclusively targeted towards the power/petrochemical and energy sectors, as well as water/desalination related investments. Recently, the country's focus has been on knowledge-based industries and human capital related investments, such as vocational training and youth exchange programs, in addition to renewable energy technology and industrial diversification. It is such broadening range of interests that will ultimately promote long-term and sustainable relations between the Gulf and Asia.

Based on Asia's increasing interest in the Gulf region, GRC Asia's principal focus will include issues in the fields of energy, politics, economics and security relating to the GCC states as well as other countries of the region including Iran and Iraq. We believe that we are well placed to contribute to the understanding of both short-term and long-term strategic issues relating to GCC-Asia relations.

This GCC-Asia bulletin, which is to be produced bi-annually, seeks to address the current information deficit in the area of GCC-Asia relations through analytical and incisive articles. In this issue, the emphasis is on the relationship with Japan. Following issues will focus on other countries in Asia as well as offer thematic perspectives.

I hope you will find this bulletin informative and thought-provoking. Please send us your comments once you have had the opportunity to go through this issue.

Noriko Suzuki
Director
Gulf Research Center
Foundation Asia
norikosuzuki@grc.net

Editor-in-Chief: Abdulaziz Sager
Editor: Noriko Suzuki
Assistant Editor: Radhika Menon
Senior Designer: Murad Musfer

Editorial Policy

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GRC Foundation Asia
Roppongi 4-4-4-33, Minato-ku, Tokyo 106-0032, Japan
Tel.: +81 3 6904 7121
Fax: +81 3 6904 7122
Email: info@grc.net
Website: www.grc.net

Gulf Research Center
Knowledge for All

In This Issue

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On OSIPP-GRC Academic Cooperation

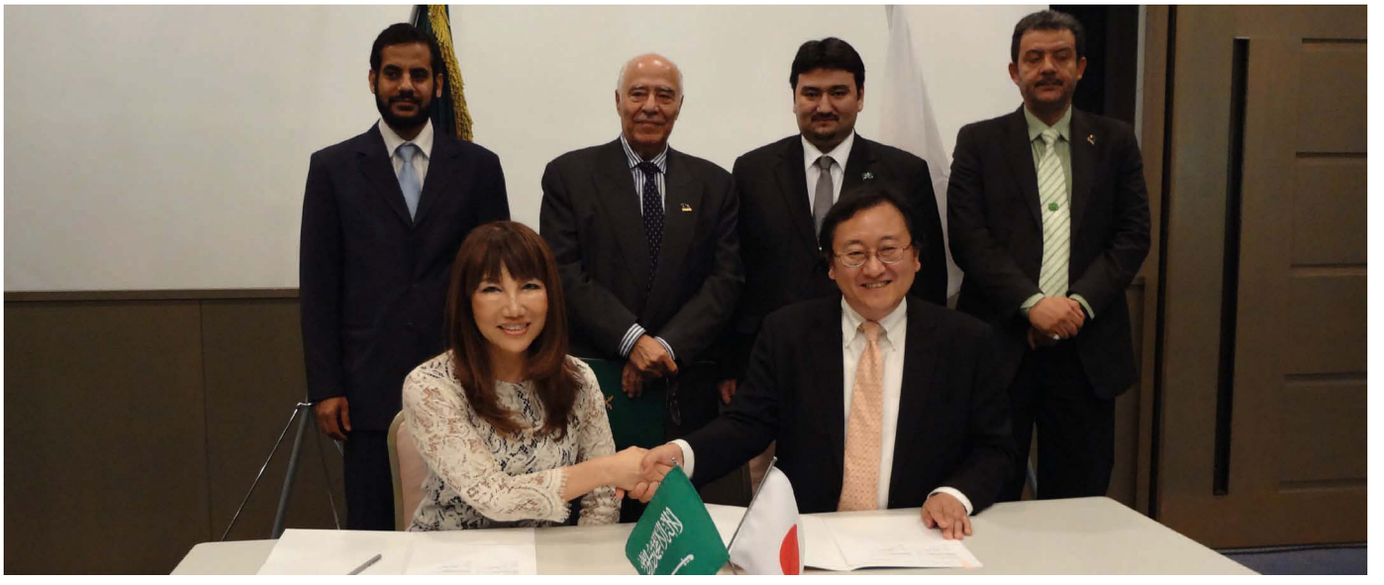
Toshiya Hoshino
Professor and Dean
Osaka School of International Public Policy
Osaka University, Japan

The Osaka School of International Public Policy (OSIPP) at Osaka University, Japan had the honor to initial the agreement of academic cooperation with the Gulf Research Center (GRC) on October 13, 2012, during the first-ever Saudi Week held in the city of Osaka. As the Dean of the School, I had the pleasure of signing the document together with Ms. Noriko Suzuki, GRC's Director for Asia & Australia. The ceremony was most graciously witnessed by former Ambassador of Saudi Arabia in Japan, H.E. Mr. Mohamed Bashir Kurdi and Dr. Essam Bukhary, Saudi Cultural Attache in Japan, among others. We truly value the agreement which will open up the opportunity to jointly analyze matters of common and strategic concern between Japan and the Kingdom of Saudi Arabia and other Gulf countries. Building on mutual trust, we consider the start of this collaboration most timely and significant as we embark on a new year to make our world more stable, peaceful and prosperous.

Indeed, the world today is in the midst of dramatic changes in the geostrategic balance of power. There are at least three waves that are changing the face of the global political economy. First, with the dynamic rise of China and the "Asia-shift" of the United States, the center of geostrategic gravity is shifting toward East Asia and the Pacific region. Second, with the growing increase in global environmental concern and awareness, together with the changing energy landscape due to the shale gas revolution and the pursuit of new sources of energy, the balance between non-renewable and renewable energy sources is changing. Third, with the rapid innovation in information and communication technologies in a globalized world, the balance of power between state authorities and the "ordinary people" who are aided by the social media is witnessing a significant change as vividly seen in the "Arab Spring" and the international reaction to it. These are new developments that we need to watch closely in addition to existing regional rivalries in the Middle East and the Gulf region, in South Asia, and in East Asia, among others.

Against this background, it is extremely important to expand the dialogue among experts in Japan and the Gulf region to prevent the potential geostrategic risks from moving out of control as well as to enhance our mutual understanding to facilitate many future joint projects. We are strongly connected and interdependent. While we enjoy good business relations, we need to bring together our knowledge and expertise to assess and address other issues such as the future of China, proliferation challenges in Iran and in North Korea, maritime security along the sea lanes from the Gulf region to East Asia, inter-regional cooperation between East Asian regional organizations and the Gulf Cooperation Council (GCC), innovations to cope with energy and environment challenges, water and food shortages, socio-economic and cultural developments, including matters relating to the aging society in Japan as well as human resource development – particularly the case of the youth in Saudi and other Gulf countries – and the challenges posed by income gaps. OSIPP-GRC academic cooperation will prove to be a new effective platform to jointly work on these and other important research agendas.

On the Japanese side, the timing is perfect. After the lower house election and the subsequent change of government in December 2012, the new administration led by Prime Minister Shinzo Abe of the Liberal



Democratic Party (LDP) was formed. As the new government is committed to turn around the Japanese economy, now No.3 after the United States and China, as well as engage in a more proactive diplomacy, it will prove to be most useful to provide inputs based on the outcome of our joint research to guide this new administration to make the right choices. It may be noted that Mr. Abe was the Prime Minister when Japan formally developed a "strategic and multi-layered relationship" with the Kingdom of Saudi Arabia, when he visited King Abdullah bin Abdulaziz Al Saud, the Custodian of the Two Holy Mosques, and HRH Crown Prince Sultan in April 2007. Mr. Abe also visited the Kingdom in January 2009 to give a keynote address at the 3rd Global Competitiveness Forum (GCF) organized by the Saudi Arabia General Investment Authority (SAGIA).

At the GCF, Mr. Abe stressed the importance of revitalizing the world economy through three measures: fiscal injection by the major economies to stimulate the economy, reform of the global financial system, and a series of new initiatives to enhance competitiveness from a middle-and long-term perspective. Now Prime Minister Abe is spearheading key initiatives to revitalize the Japanese economy also by taking three measures; namely, a bold monetary policy, flexible fiscal policy, and a growth strategy, all at the same time to jump-start the Japanese economy. It is a daunting task to cut the vicious cycle of a decades-old sluggish and deflationary economy and heavy budget deficit, which was further exacerbated by the most tragic triple disasters of the Great East Japan earthquake, devastating tsunami, and the nuclear power plant accidents in March 2011. However tough it might be, Japan has no choice but to move on. Finding a proper energy policy is an urgent matter as the operation of most of the nuclear power plants in Japan is suspended.

On the diplomatic and security policy front, the situation that faces Japan is no less difficult. Japan needs to rigorously overhaul its security relations with the US. Its strained relationships with China, Russia, North Korea and South Korea, now under new leaders, need to be revamped.

By implementing the academic cooperation agreement, we look forward to hearing thoughtful and informative observations from GRC experts as Japan forges new relationships with its neighboring countries. Likewise, we look forward to having a series of intellectual and policy-relevant discussions with the GRC on the current and future agenda in the Middle East, the GCC region and beyond to explore the areas where Japanese experts, both from government and business as well as from academic sectors, can join forces with the experts from the Kingdom of Saudi Arabia and other GCC countries.

Japan-Gulf Relations in the Wider Asian Context

Makio Yamada
Doctoral Candidate
University of Oxford

In the summer of 2012, when the London Olympics drew to a close, three major East Asian states – Japan, China, and South Korea – entered another round of less peaceful competition over their territorial claims over certain islands. It was perhaps an ominous testimony that, while the twenty-first century is destined to be an Asian century, it will also probably be a century of Asian rivalry. As Asian regional powers now grow into global powers, rivalries are most likely to spill over beyond the East Asia region. In the economic sphere, cut-throat competition is already present around the globe, and the Gulf region is increasingly becoming one of the theaters of such competition. The Gulf region was long recognized by Asians as a sacrosanct sphere of influence of the Western powers, but now the Gulf States are rapidly reorienting themselves towards the Orient, as new coinages such as the "New Silk Road" (Ben Simpfendorfer) and the even more boldly-put "Asianization of the Gulf" (Christopher Davidson) suggest.

The Gulf region was long recognized by Asians as a sacrosanct sphere of influence of the Western powers, but now the Gulf States are rapidly reorienting themselves towards the Orient

Such reorientation was anything but imaginable half a century ago. In the 1960s, Japan – an emerging economy of that period – and Taiwan, representing the Chinese nation at the UN instead of the People's Republic of China (PRC) (until 1971), were the only palpable Asian powers in the Gulf region. The Gulf sheikhdoms (with Kuwait becoming independent in 1961) were still under heavy British influence, and the economy of Saudi Arabia was under the aegis of the Arabian American Oil Company (Aramco). Japan only partly succeeded in breaking the mold of Anglo-American domination through its development of oil production in the Saudi-Kuwaiti neutral zone, which was carried out by a private firm, the Arabian Oil Company (AOC), with government support. Taiwan, on the other hand, deployed agro-technical missions in the region to assist with the modernization of oasis agriculture in order to deter the infiltration of PRC, which was then emerging as one of the normative leaders in the Third World. Fifty years later, PRC, having replaced Taiwan as a legitimate Chinese nation-state in most parts of the international community, is rearing its head as a behemoth energy consumer – and sending scores of construction workers to build roads, bridges and buildings in the Gulf region. India has also been increasing its demands for oil from the Gulf region, which is now home to 5.5 million Indian expatriate workers. South Korea is also flexing its ever-competitive industrial muscles in the region, as its recent successful bidding for nuclear business in Abu Dhabi and the construction of Burj Khalifa, the world's tallest tower penetrating the sky of Dubai, testify. Southeast Asian states are waiting in line too. This 'Asian scramble for the Gulf' is now providing the Gulf States with promising windows of opportunity to diversify their economic and diplomatic relations away from the West.

Japan in the Gulf Region

However, what this rising competition among themselves means for Asians is that they are now inevitably compared with their rivals by their Gulf counterparts. Japan cannot escape from such competition and comparison. Today, Japan overall is less salient than in the past. A quarter century ago,

the 'Japan as Number One' discourse was in wide circulation, but the country then became mired in the economic doldrums and now its economy is actually No. 3 after the US and China. Thus, only a handful of people outside Japan pay attention to Gulf–Japan relations nowadays, while a mass of scholars and students eagerly learn about China's and India's growing interest in the region. It could be said that this is also partly attributable to the unique communication

> *The Gulf region is, indeed, indispensable for Japan's energy security as it supplies the vast majority of the latter's oil imports*

styles of the Japanese themselves, as the virtues of modesty and indirectness in their society easily end up in undue reticence outside Japan, making the country look more enigmatic than it is, unfortunately. However, for the Japanese who tend to be doers rather than talkers, silence is not akin to absence. Despite low levels of publicity, Japan's stakes in the Gulf region are, indeed, substantial. Its trade volume with Gulf Cooperation Council (GCC) states still exceeds that of China and South Korea, reflecting Japan's mega imports from GCC states, most of which is oil (see Figure 1). In 2011, Japan was the largest export partner for Saudi Arabia, UAE, and Qatar, and the second largest for Kuwait. The Gulf region is, indeed, indispensable for Japan's energy security as it supplies the vast majority of the latter's oil imports:

the proportion was as high as 77.5 percent in 1973; 71.5 percent in 1990; and 89.1 percent in 2005. AOC lost its concession in the former neutral zone in 2000, but three other Japanese oil firms – the Abu Dhabi Oil Company, the United Petroleum Development Company, and the Japan Oil Development Company – still hold concessions in Abu Dhabi, which were granted to them upon the UK's departure from the region some 40 years ago. In Qatar and Oman, too, Japanese firms are engaged in the production of oil and gas.

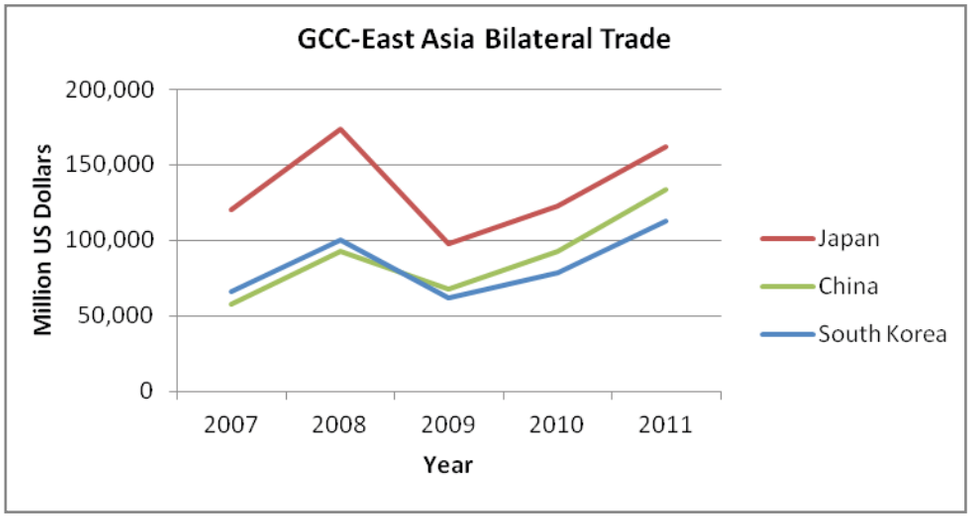


Figure 1: From East Asia to GCC

Source: UN Comtrade

Japan's utility for the Gulf States extends beyond the field of energy, however. Japan has long been a model for industrial development for

modernizers and industrialists in the Gulf region, who have attempted to tap its advanced technologies, commercial and industrial know-how and scientific knowledge for their own development. Japan's technology diffusion to the Gulf region dates back to the 1960s when AOC served as a technology transfer channel in the oil industry, standing as an alternative to Aramco and BP. AOC simultaneously filled the education gaps for its employees and local children and created the Kuwait Institute for Scientific Research (KISR) to foster R&D as well. In the 1970s, Japan's technology transfer to the Gulf region became institutionalized in its foreign policy as the balance of power between the governments of oil-exporting countries and Western international oil companies shifted in favor of the former, and that required Japan to establish direct quid pro quo relations with the Gulf States. The two petrochemical joint ventures, SHARQ and Ar-Razi, were created in Saudi Arabia between Japanese consortiums and the Saudi Arabian Basic Industries Corporation (SABIC), laying the foundation of the kingdom's petrochemical industry which today accounts for 8 percent of global production. The plummeting oil prices and insecurity in the Gulf region, as well as Japan's own economic downturn, have resulted in stagnation in Japanese foreign direct investments since then, but another oil bonanza in the past decade reinvigorated Japanese businesses' participation in industrial projects in the Gulf region, the most symbolic example of which is the Petro Rabigh, a giant petrochemical joint venture between Sumitomo Chemical and Saudi Aramco which came on stream in 2009. The Japanese government and firms are also engaged in empowering the local workforce by running vocational training centers in Riyadh in the auto mechanics, plastic fabrication and home appliances sectors. They not only teach skills but also inculcate the qualities needed by engineers as well. Japan is increasingly seen by the Gulf States as a promising partner for their transition to post-oil knowledge economies, as the urgency of economic diversification turns acute due to rising youth unemployment and consequent need for job creation.

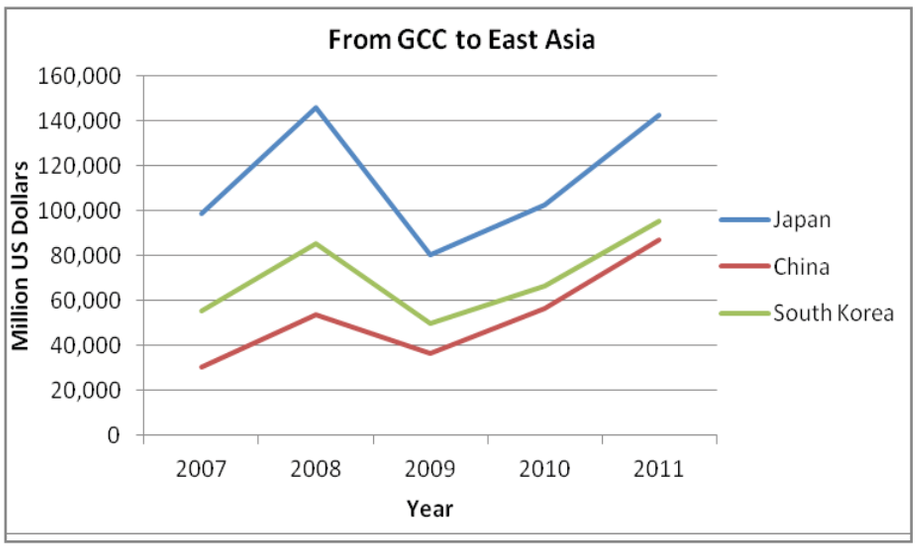


Figure 2: From GCC to East Asia

Source: UN Comtrade

Japan in Comparison and Competition

Such a partnership for post-oil economy building is precisely Japan's advantage vis-à-vis its Asian rivals in the Gulf region. China and India will probably soon overtake Japan as export markets for the Gulf producers both in the energy and manufacturing sectors. However, their quality investment links with the Gulf economies are narrower than their size implies because they largely remain recipients of foreign investments and technologies, too. Also, there is a sign of creeping competition in trade between them and the Gulf economies. In recent years, both China and India have had trade disputes with the Gulf States as they raised anti-dumping cases against certain petrochemical products exported by Saudi and Omani producers. Cost-competitive Gulf petrochemical products supported by the overwhelming feedstock advantage are increasingly perceived as a threat to the development of their local petrochemical industries. To avoid thorny competition, China and India have been struggling to create more complementarity with the Gulf States: SABIC's recent construction of a plastic R&D center in Shanghai and India's talk of IT cooperation are examples. Nevertheless, as China transits to a

knowledge economy at the same time as the Gulf economies do, more potential competition may await in the near future. Indeed, just as China has siphoned light industries away from the rest of the developing world in recent decades, it may start doing so in the middle- to high-tech sectors too in the near future, making the current development strategies of the global middle economies less guaranteed. In preparing for such a "second China shock", the Gulf States would need to absorb more expertise as well as technologies and experiences from advanced economies, including Asian ones. In this regard, Japan's tough competitor is South Korea, which has been successful in nurturing knowledge-intensive businesses and extending its industrial arms across the globe. Korea's rising strength partly reflects its domestic structure of political economy, where the state and selected national champion businesses, chaebol, are close-knit. Korea is increasingly emerging as a model for state-sponsored development in the developing world, replacing Japan, Singapore and even China.

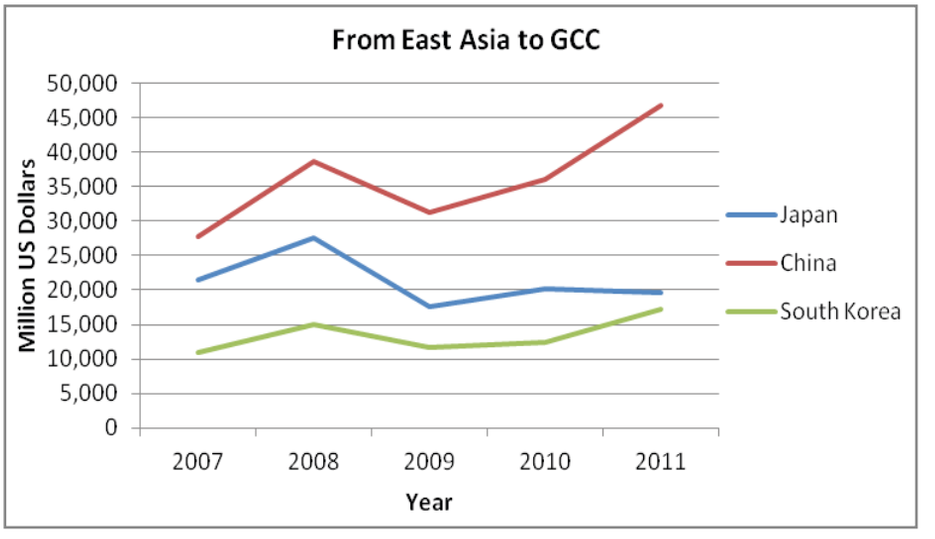


Figure 3: GCC-East Asia Bilateral Trade Source: UN Comtrade

In such a context, Japanese policymakers and businesspeople should articulate their distinctive advantages vis-à-vis their Asian rivals. Japan's innovative technologies should be applied more to the Gulf States' needs in water, renewable energy, energy efficiency, urban development, and others with more co-research and co-innovations promoted in both firms and university labs. Also, Japan's distinctive economic system exemplified in its numerous cutting-edge small and medium-enterprises (SMEs) can be an inspiration for the Gulf policymakers, who seek to incubate their own Mittelstand. Although big Japanese corporations are often criticized as being slow in making decisions in the Gulf region, Gulf students studying in Japanese universities are picking up entrepreneurial vim from their young Japanese peers. Moreover, Japan's values and culture such as individual moral and collective organization constitute its soft power on the Gulf Arab streets. In 2009, MBC aired a program entitled Khawatir (Thoughts) which showcased a number of aspects of Japanese life, immediately becoming the talk of the town. Today, there is more air for Japan to breathe in the Gulf region with the US shifting its focus to the Asia-Pacific, and Europe in a deep economic crisis. The time is ripe for the Japanese to make the country look less enigmatic and, indeed, more attractive.

Japan's innovative technologies should be applied more to the Gulf States' needs in water, renewable energy, energy efficiency, urban development, and others with more co-research and co-innovations promoted in both firms and university labs

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Makio Yamada is a doctoral candidate in International Relations at St Antony's College, University of Oxford. He is the author of "Gulf–Asia Relations as 'Post-Rentier' Diversification?: The Case of the Petrochemical Industry in Saudi Arabia," Journal of Arabian Studies Volume 1, Issue 1 (2011) and "The China Model and the GCC Economies: Common Challenges in the Transition towards a Knowledge Economy" in Matteo Legrenzi (ed.) The Gulf across East and West: Charting GCC and Iranian Inter-Asian Relations (London: Ashgate, 2013).

Japan and the Gulf: Balanced Business Relationship, and Thereafter

Yoshio Minagi*
Chief Representative of Mizuho Corporate Bank Ltd, Bahrain Representative Office

The Gulf countries are crucial for Japan's energy security because nearly 90 percent of its crude oil supply is imported from the region. Hence, strengthening the Gulf-Japan relationship is of utmost importance. After the Great East Japan Earthquake on March 11, 2011, Japan drew up revised plans on energy and environment in September 2012. While the plan stressed green energy, it also underlined the need to strengthen relations with resource-rich countries to ensure a stable supply of fossil fuels. As part of this strategy, therefore, Japan must exert greater efforts to diversify bilateral relations with the Gulf countries surpassing what it has done in the past.

The relationship between Japan and the Gulf is based on the exchange of manufacturing products and oil/gas. Since the 1970s, Japanese companies have been active in the manufacturing of electronics and automotives, trading, engineering, energy, as well as financing and have flourishing businesses in the Gulf. Japan evolved to be one of the major exporting countries in the world. However, the political and economic events both in Japan and the Gulf over the last two decades have had a crucial impact on their economic relationship. Among these events were the 'the economic bubble burst' in Japan, Iraq's Kuwait invasion and the consequent Gulf War, a low oil price era, the Asian economic crisis, the Iraq War, the 2008 financial crisis, Iran-related issues and the events of the Arab Spring. The last two decades of mutual business can be roughly described as relatively dark in the first half and relatively bright in the latter half.

> *...Japan must exert greater efforts to diversify bilateral relations with the Gulf countries surpassing what it has done in the past*

Huge Trade Deficits

The value of trade between Japan and the Gulf's eight countries, namely Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and UAE stood at $180.3 billion as of 2011 compared to $38 billion in 1990. The Japanese total trade volume with the world was $1,673.9 billion in 2011 and $521.7 billion in 1990. Trade with the Gulf rose 4.7 times between 1990 and 2011 compared to global trade at 3.2 times. Trade figures with the Gulf depended heavily on the market price of oil and gas.

Japan's trade balance with the Gulf has been consistently negative although it has been recognized as an export-oriented country. Japan recorded a trade deficit with the world in 2011 at $32 billion, for the first time since 1980, as well as a huge deficit with the Gulf of $137 billion although, as one of the front-runners in energy conservation, it exerted huge efforts to reduce oil/gas imports. The trade volume between Japan and the Gulf peaked in 2008. Although the yearly average oil price in 2011 (OPEC basket: USD 107.46 b/d) was higher than in 2008 (USD 94.45 b/d), Japan reduced crude oil imports from the Gulf in 2011 by 13.5 percent to 181 million kilo liters (KLs) compared to 209 million KLs in 2008. However, gas imports increased due to the nuclear issue.

* The opinions expressed by the author do not reflect the opinions of Mizuho Corporate Bank Ltd.

Japanese exports of transport equipment to the Gulf were heavy weighted and consumer electronics may have been performing solidly. These manufacturing products are categorized as global products for emphasizing efficient productivity and logistics, and exports include 'made in other countries' and not 'made in Japan' only. In particular, more than 90 percent of Japanese branded consumer electronics figures in this category as they are made elsewhere, mainly in

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Asian countries. Japanese manufacturing has already been expanding to other Asian countries and the trend will continue not only in electronics but also in other items such as transport equipment. Generally, the Gulf countries are recognized as growing economies and their population numbers are also increasing. Therefore, exports could expand to encompass new areas. The diversification of exports is quite important for Japanese regardless of whether the products are 'made in Japan' or made somewhere else. Fortunately, there is still a value for 'Made in Japan' based on the track record of Japan companies. Furthermore, as one of the leading countries in energy conservation/ efficiencies, Japan can bring related technologies to the Gulf.

As a result of the trade deficit recorded in 2011, many economists insist that Japan should rebuild as an

> *Japan is in a phase of transition from a trading country to an investor country, particularly because it is difficult to compete on costs with some of the other Asian countries*

investor nation with current surplus rather than pursue a trading surplus. Such an argument may indicate that the Japanese economy is now reaching a turning point. On the other hand, in the 2000s, the entry of Japanese manufacturing industry into the Asian market has already accelerated and bilateral business relationships are progressing rapidly. In the near future, Japanese SMEs will inevitably enter the Asian markets. The competition between Japanese and Asian companies in the Gulf may not be significant enough to be noted as Asian economies have worked in a mutually complementary manner.

More Japanese Investments Required

The volume of Japanese investment in the Gulf has fluctuated since 1975. Compared to the total Japanese outward direct investment globally, the Gulf ratio is generally low, at less than 1 percent. Although many Japanese companies were involved in investment projects in the Gulf, mainly in the fields of petrochemical, steel and IPP (IWPP), there was no obvious investment in the manufacturing of consumer items which is the major Japanese FDI globally. The reasons for lack of FDI in manufacturing in the Gulf are due to the investment environment such as foreign ownership limitation, existence of commercial agency laws, lack of qualified human resources and relatively low trade tariff (in the case of GCC).

The Petro Rabigh project in Saudi Arabia has received significant Japanese FDI after 2005. It is a joint venture project between Saudi Aramco and Japan's Sumitomo Chemical with a total project cost of over $10 billion. Japanese trading houses such as Marubeni Corporation, Sumitomo Corporation, Mitsui & Company and Sojitz Corporation are quite active in IPP or IWPP projects in the Gulf. These projects have contributed to the FDI figures for the last several years. In Dubai, there are many 100 percent Japanese-owned companies which have invested capital in their free zone subsidiaries.

The figures for investments from the Gulf cannot be gleaned from Japanese data. Some sovereign wealth funds in the Gulf have made huge financial investments in Japan through overseas funds. However, there are not many obvious cases, except the 15 percent investment in Cosmo Oil Company by Abu Dhabi's IPIC in 2007 and the 20 percent investment in Showa Shell Oil Company by Saudi Aramco in 2004.

Japanese investments in the Gulf are important for both sides. Although the importance of increasing exports is recognized, Japan is in a phase of transition from a trading country to an investor country, particularly because it is difficult to compete on costs with some of the other Asian countries. If Japan is able to expand its investments in the Gulf, it may be one of the mitigating factors to reduce trade deficits. It will also be able to contribute to local employment, which is currently one of the most important issues for Gulf governments. In order to attract Japanese investment, however, the Gulf countries need to make an effort to improve the investment environment, including investment related laws and their implementation. Patient negotiations between governments will definitely pave the way for more Japanese investments.

Facing Competition in the Contracting Business

Between the late 1970s and early 1980s, the Gulf region accounted for almost one-third of Japanese contracting business. These were mainly downstream projects such as petrochemicals. When the Japanese Yen's exchange rate against the US dollar started to appreciate rapidly in 1985, overseas contracts by Japanese companies slumped until the late 1980s. In the 1990s until the Asian economic crisis, Japanese contracts recovered due to the expansion in privatization projects in Asia and the Gulf. In the period 1998-2010, the year 2005 saw the highest number of contracts awarded totalling $13.4 billion. The Gulf's share of global contracts was more than half at 52.2 percent. In 2005, there were 12 contracts amounting to more than $100 million.

In order to attract Japanese investment, however, the Gulf countries need to make an effort to improve the investment environment, including investment related laws and their implementation

Although the volume of Japanese contracts was larger in the 2000s than in the 1990s, it is apparent that other Asian countries, especially South Korea, have got more contracts than Japan. Japanese contracting is losing its position in the Gulf as a result of serious competition from Asian counterparts mainly due to the recent appreciation in the Yen's value. Some Japanese contracting firms have advanced technology and special management expertise and Japan has financial capabilities in both ECAs and commercial banks. The banking exposure expanded by 4.8 times between 2000 and September 2011, which was almost the same level as trade expansion in both exports and imports. This means that the volume of Japanese contracting business did not equally benefit from increased volumes of trade and financing. In Iraq, for example, Japanese companies are quite cautious in terms of securities. However, other Asian countries have managed to do better although the Japanese government committed to giving more than $5 billion in soft loans for the Iraqi government in 2003. Japan has had a special relationship with Iran for a long time although business with Iran is currently not easy due to the tension with western countries. To function effectively and develop business in the Gulf, Japan needs to adopt a coordinated approach in different fields.

Financing Capability should be a Weapon

As mentioned before, the total amount of Japanese banking exposure to the Gulf as of September 2011 was $24,298 million which was almost five times the figure in December 2000. Three countries – UAE, Saudi Arabia and Qatar – accounted for 85 percent of this. The largest exposure was with UAE at $8,593 million which is 22.6 times the figure in 2000. Since the European financial crisis deepened in 2011, Japanese exposures have sharply grown while the Europeans are hurriedly trying to reduce their exposure. It shows that Japan has the financial capabilities to support the Gulf economies not only in Japanese-related projects in the Gulf but also in local projects, although other Asian countries have supported only their own businesses in the Gulf.

To sum up, the economic relationship between the Gulf and Japan has been excellent for many years based on mutual trust. While seeking to further strengthen ties, the Japanese government and companies need to strategically consider the direction of the Gulf-Japan relationship and how to take it forward. This is essential for Japanese energy security.

A General History of Kuwait-Japan Economic Relations from the 1950s to the 1970s

Takumi Sato
Doctoral Candidate
University of Tokyo

In December 2011, Kuwait and Japan celebrated the 50th anniversary of diplomatic relations. Over the past half century, both countries have maintained sincere and friendly ties and cooperated in political and economic activities. According to statistics published in October 2012, resource-poor Japan depends on crude oil imports for about 50 percent of its energy needs, and Kuwait supplies about 8 percent of Japan's total crude oil imports. Japan is also the world's third biggest oil user and is considered as a vital commercial partner of the oil-rich state where oil revenue accounts for nearly 95 percent of government income. Though the two countries are located far from each other, both economies have become deeply integrated. This article illustrates how the economic ties between the two states developed. In particular, it describes the start of this economic relationship in the 1950s and how it expanded throughout the 1960s and 1970s.

Though the two countries are located far from each other, both economies have become deeply integrated

After having accepted the San Francisco Peace Treaty in May 1952, Japan established diplomatic relationships with many of the states in the Middle East. During the reconstruction period, the principal strategy for Japan's diplomacy was based on earning foreign exchange. Therefore, by terminating discriminatory tariffs, signing up treaties related to commercial activities and payment agreements through the official delegations and embassies abroad, the government endeavored to provide a commerce-friendly environment for the Japanese corporations in order to increase their production and delivery capabilities in the international market.

Despite the fact that Kuwait's export of crude oil to Japan is currently the main economic activity which connects the two sides, economic relations between the two countries did not start with it. Rather, it started with the export of Japanese products to Kuwait. This is partly because the Japanese government at the time regarded Iraq and Iran as the major oil-exporting countries, while the south-western shore of the Gulf, including Kuwait, was only considered as a promising commercial market to which Japanese products were to be exported. According to Mr. Tada, the former Japanese ambassador to Syria, the starting point of commercial ties between the two states goes back to the Damascus International Trade Fair in 1955, at which Japanese products, such as Bridgestone tires, were sold to Kuwaiti corporations.

How did the Japanese government perceive Kuwait in particular at the time? The internal documents of the Ministry of Foreign Affairs in 1957 reported that Kuwait distinguishes itself from Saudi Arabia in terms of its economic development strategy. As is explained in detail later, Kuwaiti economic policy from the 1950s to 1970s was the most commerce-

According to statistics published in October 2012, resource-poor Japan depends on crude oil imports for about 50 percent of its energy needs, and Kuwait supplies about 8 percent of Japan's total crude oil imports

friendly in the region, and Kuwait's model of economic development was seen as one which other Gulf monarchies should follow. The Ministry of Foreign Affairs in Japan had already realized the advantages of Kuwaiti economic policies, and in 1955, it dispatched diplomats to Kuwait for the purpose of studying Japanese products' export potential in the local market. This mission successfully made contact with high-ranking members of al-Sabah family, in what is believed to be the Japanese government's first direct contact with the Kuwaiti ruling family. In addition to this official approach, people-to-people relations also started in this period. In 1958, 10 Japanese automotive engineers were hired by a traditional merchant in Kuwait. Soon, their work ethic and high efficiency won them appreciation in Kuwaiti society.

Kuwaiti economic policy from the 1950s to 1970s was the most commerce-friendly in the region, and Kuwait's model of economic development was seen as one which other Gulf monarchies should follow

These official and private relations between Kuwait and Japan were strengthened after the Arabian Oil Company [AOC] successfully started oil production in the Saudi-Kuwaiti neutral zone, al-Khafji. In the second half of the 1950s, the Japanese economy had started to recover from the economic recession which followed the end of the economic boom propelled by the Korean War, and was on the verge of entering into a new boom period. This new economic boom, known as the Jinmu Boom, caused sudden economic growth, and changed the primary energy source from coal to oil. As a consequence, the second Hatoyama administration [March 1955 to November 1955] formulated a new energy policy.

The Japanese government of the time also instituted a foreign exchange allocation policy, and for that reason, private firms could not import more than a specific amount of crude oil from foreign countries. At the same time, Japan's oil import was totally dependent on seven major oil companies know as the "Seven Sisters," and they were in control of nearly 80 percent of the world petroleum reserves at the time. Therefore, it was almost impossible for Japanese firms to import crude oil at the desired price. In order to encourage further economic growth, it became crucial for Japanese government and private firms to be directly involved in the oil development process.

On the Kuwaiti side too, there were also several factors which persuaded them to explore a concession agreement with Japanese firms. The biggest factor was Saudi Arabia. Since the advent of the oil era, almost all Saudi national income has come from oil revenue. But every part of this important industry, namely digging, refining, and exporting, was under the control of an American multinational, Aramco. King Saud of Saudi Arabia was concerned about this fact and was willing to discuss the possibility of a concession agreement over the offshore zone of al-Khafji with a Japanese firm. The king conveyed this intention to the Japanese government, which responded quickly by supporting the establishment of AOC in February 1958.

In 1958, 10 Japanese automotive engineers were hired by a traditional merchant in Kuwait. Soon, their work ethic and high efficiency won them appreciation in Kuwaiti society

During the negotiation over the concession agreement, AOC received considerable support from the Japanese government. For example, the government provided letters of introduction with the names of the Prime Minister Tanzan Ishibashi and Foreign Minister Nobusuke Kishi. The government also issued a cabinet agreement to show its support for AOC in negotiating with Kuwaiti government. As a result, together with the pressure from the Saudi government, the Kuwaiti government finally concluded a concession agreement with AOC in May 1958. In January 1960, AOC successfully discovered oil in commercial quantity.

The success of AOC in oil exploration enhanced the economic relations between Kuwait and Japan

The success of AOC in oil exploration enhanced the economic relations between Kuwait and Japan. In 1961, the year Kuwait gained full independence from the United Kingdom, the Japanese government dispatched an "Arabian Peninsula Market Research Delegation" to the Gulf Arab region. The delegation conducted research on local market demands and made a big contribution to the expansion of Japanese business in the region. During this period, Kuwait came to be perceived as the most attractive business market in the Gulf by Japanese firms. It was the regional leader in economic development, and its customs regulations, commercial rules, and transportation infrastructure were designed to be friendly to foreign capital enterprises. The fact that nearly 30 percent to 50 percent of all the products imported to Kuwait were re-exported to the neighboring states clearly indicates the important commercial role Kuwait, described as "Free Market" or "Transit Trade Market" by Japanese governmental official documents, was playing in the Gulf region at the time.

It was the regional leader in economic development, and its customs regulations, commercial rules, and transportation infrastructure were designed to be friendly to foreign capital enterprises

As a result of such factors, "Kuwait became the exhibition center of Japanese products in the beginning of 1970s," says the former Japanese ambassador to Sudan Mr. Komizo. For example, Nippon Telegraph and Telephone Public Corporation [now NTT], Toshiba, and Ishikawajima-Harima Heavy Industries [now IHI] received orders from the Kuwaiti government for construction of communication systems, power plants, and desalination plants. Along with heavy infrastructure, vehicles of Toyota and Nissan and consumer electronics of Sony, Sharp, Toshiba, and Hitachi became virtually indispensable to the everyday life of Kuwaitis. The availability of Japanese products was not limited to Kuwait but also extended to Bahrain, Qatar, Saudi Arabia and UAE through the Kuwaiti market.

...with the increased availability of new energy resources such as shale gas and oil sands from North America, it is expected that Japan's energy relations with the Gulf region, including Kuwait, will dramatically change in the next few decades

These economic activities, of course, contributed to the strengthening of political relations between the two states. This relationship of mutual trust, for example, can partly be perceived in Japan's financial and military support for the reconstruction efforts in Kuwait after the Iraqi occupation, and in Kuwait's donation of five million barrels of crude oil to quake-hit Japan in 2011. However, it is true that there has been severe competition between Japanese corporations and manufacturers from emerging states over the Kuwaiti industrial and consumer market share, and the former's presence is on the decline. At the same time, with the increased availability of new energy resources such as shale gas and oil sands from North America, it is expected that Japan's energy relations with the Gulf region, including Kuwait, will dramatically change in the next few decades. In order to maintain, and even to develop the mutual relations between the two, it is necessary for both partners to expand the field of cooperation to areas which can contribute to their sustainable development. This new field of cooperation, which will be remarkably different from the conventional one, shall be the the most important link which connects these two longtime friends in the 21st century.

This relationship of mutual trust, for example, can partly be perceived in Japan's financial and military support for the reconstruction efforts in Kuwait after the Iraqi occupation, and in Kuwait's donation of five million barrels of crude oil to quake-hit Japan in 2011

Takumi Sato is a doctoral candidate in Middle Eastern studies at the Graduate School of Arts and Sciences, University of Tokyo.

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Gulf-Asia Relations:
Noteworthy Developments – Nov. 2012 to Mar. 2013

November 1
Basic agreement has been reached between Japan and the United Arab Emirates on the contents of the Avoidance of Double Taxation treaty. The Japanese side would need to obtain the approval of the Treaty Bureau and the Parliament.

November 5
Kuwait and Japan start tax negotiations.

November 8
To celebrate closer relations between Saudi Arabia and the Republic of Korea, the Minister of Economy & Planning of the Kingdom of Saudi Arabia, H.E. Dr. Mohammad Al Jasser, was on board the first direct flight to Seoul from Saudi Arabia. These flights are to be operated thrice weekly from both sides.

November 11
Deputy Secretary General in charge of UN peacekeeping Herve Radosu was the keynote speaker at the symposium "Responding to New Challenges – PKO: 20 Years of the United Nations and Japan." One of the key issues discussed was how Japan could send PKO to Syria as well as how Japan could contribute to resolving human right issues in the Middle East and Africa.

November 20
Aramco Asia, a solely-owned subsidiary of Aramco, which opened its headquarters in Asia which will serve as the business and cultural exchange portal between Aramco and China. Aramco has already developed two joint ventures in China with China Petroleum & Chemical Corp (SNP), or Sinopec Group, and ExxonMobil Corporation (XOM). It holds a 22.5 percent stake in retail oil products distributor Sinopec SenMei Petroleum Company, and a 25 percent stake in the Fujian Refining & Petrochemical Company, and it operates a 240,000 barrel-per-day refinery.

November 26
Saudi Arabia's trade has been boosted by higher energy prices in the last few years, and its exports rose by 45 percent in 2011 and by an estimated 8 percent in 2012. Exports to Asia (excluding Japan) will continue to grow more rapidly than those to other regions, growing by almost 9 percent a year during 2021-30, according to HSBC's latest country Trade Forecast report. Imports from India, China, Vietnam and Malaysia and to a lesser extent Turkey, will show the fastest growth in the coming years.

November 27
Saudi Basic Industries Corporation (SABIC) has announced its future plans for the SABIC-Sinopec complex. The project is expected to be complete by 2015 and its capacity is 260,000 tons a year. SABIC has plans to expand its partnership in Japan. SABIC's Japan operation owns only a small plant related to innovative plastics. This plant produces thermoplastic resins, specialty compounds, films, sheets and additives. SABIC is exploring the possibility of establishing new projects with the Japanese.

November 29
Despite the opposition of the United States, Canada and Israel to a General Assembly resolution to accord non-member observer state status in the UN to Palestine, Japan voted in favor of the resolution and said that it supported the right of the Palestinian people to self-determination and endorsed a two-State solution. Japan urged Palestine to exert more earnest efforts towards peace in the Middle East and called on Palestine and Israel to establish relationships of mutual trust and to return to the negotiating table.

December 1
JGC Corporation Arabia, a Saudi Arabian company, and JGC Corporation HQ in Japan were jointly awarded one of the largest core equipment projects for the largest refinery project by Saudi Aramco in Jazan Economic City, Saudi Arabia.

December 6-7
Another round of the Dialogue for the Future between Japan and the Islamic World was held. Japan has been focusing on the dialogue with the Muslim world, and dialogue meetings have been conducted over eight times since 2001 in order to enhance understanding between Japan and the Muslim world.

December 10

China is Saudi Arabia's third largest customer after the United States and Japan and is expected to increase crude oil imports from Saudi Arabia by 11 percent in 2013. China sees Saudi Arabia not only as the world's top oil exporter, but also as one of the most important strategic partners for the country's economic development due to its capacity to ensure a stable supply of crude oil.

December 12

Dr. Saleh Al Rashid, General Director of the Saudi Industrial Property Authority (MODON), has announced that the Isuzu Motors factory in Dammam will launch the production of light pick up trucks. This Isuzu factory will encourage inward investment into industrial sectors, especially the automotive related industry, as well as create employment opportunities in the Kingdom. According to Isuzu Motors, within three years, the plant is expected to meet the Saudi domestic need for light vehicles and be ready to start exporting vehicles to other Gulf States.

January 3

The UAE represents one of the largest Middle Eastern markets for Japanese products in the first 10 months of 2012 according to JETRO. In addition, the UAE is the second biggest regional exporter to Japan. The UAE's imports from Japan during January-October 2012 accounted for nearly 32 per cent of the Middle East's total imports from Japan with the total sum of imports coming to $23.7 billion. The UAE's exports to Japan also amounted to about 25 per cent of the region's total exports to Japan.

JETRO's report showed Qatar, the world's third largest gas power, emerging as the third exporter to Japan in the Middle East due to the sharp rise in its LNG sales over the past few years. Qatar's exports reached $30.2 billion in the first 10 months from $23.7 billion in the same period of 2011.

Kuwait's exports to Japan are mostly crude oil and they grew to $12.5 billion in 2012 from $10.4 billion in 2011. Oman's export to Japan also rose to $6 billion from $4.1 billion.

January 15

ACWA Power International and partners including Samsung C&T Corp. won the bid to build the Rabigh II IPP (Independent Power Plant) $2.6 billion power plant on the Red Sea Coast. The facility has capacity to produce 1,800 megawatts and is to start operating in the 2016.

January 26

The Finance Minister of Saudi Arabia, Ibrahim Al-Assaf, speaking at the World Economic Forum in Davos, expressed his wary of a "currency war." According to the Saudi Finance Minister, the devaluation of a currency by certain countries to make them more competitive in the global market has raised fears of a "currency war". This, in turn, would give a negative impact on the world economy. Since the Saudi riyal is directly linked to the US dollar, the world leading currency's exchange rates (i.e. USD, Euro, JPY) would have a direct impact on the competitiveness of Saudi exports as well as on its imports. The 'currency war' suggestion surfaced after the Bank of Japan announced plans to make open-ended asset purchases in an effort to re-inflate the Japanese economy, which recently slipped into recession. H.E. Al-Assaf mentioned that these issues should be discussed either at the upcoming G20 meeting in Moscow or in the next meeting in the United States.

January 27

Kuwait's crude oil exports to South Korea in 2012 grew by 17.3 per cent on the year to 137.65 million barrels or 376,000 barrels per day (bpd) according to a latest data carried by KUNA.

January 28

The Japan International Cooperation Agency (JICA) and the Government of Japan announced the provision of an additional emergency grant to Jordan worth 13 million Yen. Following the request of the Government of Jordon, the Japanese government decided to send this emergency aid for humanitarian assistance for the Syrian refugees.

February 1

Chief executive Mohamed Al-Mady of Saudi Basic Industries Corp. (SABIC) commented that SABIC will launch four new technology and innovation facilities in

2013, with two in Saudi Arabia and one each in India and China. SABIC has 18 research facilities around the world. The four new research centres represent a strategic investment of around $500 million, in order to continuously improve technology, applications and solutions and meet the needs of an increasingly sophisticated marketplace.

The two centers in Saudi Arabia are the Corporate Research & Innovation Center (CRI) at King Abdullah University of Science and Technology (KAUST) in Thuwal, near Jeddah, and the SABIC Plastic Applications Development Center (SPADC) in Riyadh Techno Valley at King Saud University (KSU) in Riyadh. The center in Shanghai will open in the third quarter of 2013 and deal with application development, strategic business research and corporate research. It will focus on fundamental and applied research.

February 8

The government of Japan and the Kingdom of Saudi Arabia agreed to set up a bi-lateral system of crude oil for emergency situation. Minister of Economy, Trade and Industry, H.E. Mr. Motoki visited Saudi Arabia in order to achieve the agreement of long-term sustainable supply of crude oil with the Ministry of Petroleum and Mineral Resources.

February 9

The Republic of Iraq announced that they are going to build a new pipeline through Jordon in addition to the two existing pipeline in order to allow for the increase in crude oil production. The new pipeline is to be ready by 2017. Mitsui Corporation of Japan expressed interest to join this bid. The pipeline, which is not passing through the Gulf, is seen by Japan as helping to reduce the risk of energy security for Japan.

February 11

Minister of Economy, Trade and Industry, H.E. Mr Motoki and the Vice-President of the King Abdullah City for Atomic and Renewable Energy (KACARE) agreed to enhance cooperation in the field of nuclear especially on technology and human development.

February 13

H.E. Mohammad Abu Al-Hassan, Advisor to H.H. Sheikh Al-Sabah of the State of Kuwait visited Japan where he also met with Prime Minister Abe. The two sides agreed on further collaboration in the energy trade and Japan's investment in Kuwait.

February 14

Japan and Oman held their first bi-lateral investment treaty meeting in Tokyo in the presence of Mr. Hamoud Abdullah Al-Alawi, Director-General of Economic Relations in Charge of Investment Agreements at the Supreme Council for Planning of Oman

March 5

Japan and the Islamic Republic of Afghanistan reached agreement on Japan's provision of further aid for the Afghanistan's infrastructure development. The amount comes to nearly 100 million USD.

March 6

The Minister of Defence of Republic of Turkey pays a visit to Prime Minister Abe as a means to discuss enhancing the two countries' further economic and diplomatic relations.

March 7

Parliamentary Vice-Minister of Foreign Affairs of Japan, H.E. Dr. Toshiko Abe attends the Fifth Friends of Yemen Ministerial Meeting in London. He announces the completion of Japan's granted aid of USD34.2 million for 2012 as a contribution to meet Yemen's current political, economic and humanitarian challenges.

March 11

Fujitsu announced plans to start a new venture of monitoring air and water pollution at an industrial park in Saudi Arabia following agreement between MODON and Fujitsu Saudi Arabia.

March 17

Tonen General Group and JGC Corporation were identified as one of the leading pre-qualified bidders as main operator of Iraq Oil Refinery in the Nasiriyah Oil field.

March 19-22

H.R.H. Prince Salman Bin Hamad Al Khalifa, the Crown Prince of the Kingdom of Bahrain, visits

to Japan on an official visit on the occasion of commemorating 40 years of diplomatic ties between Japan and the Kingdom of Bahrain. During a meeting with Prime Minister Abe, the Japanese Prime Minister mentioned that the Bahrain can take on an important role to achieve further progress on the FTA negotiation between GCC and Japan given Bahrain's role as chairman of the GCC during 2013.

March 20

Abdullatif Al-Othman, Governor of the Saudi Arabian General investment Authority (SAGIA) delivered a speech at MEOS 2013 stating that the oil and gas sector in the Gulf will remain one of most promising sectors for FDI. Further, he argued that these areas will provide various business and investment opportunities for foreign investors, especially from North East Asian investors.

March 22

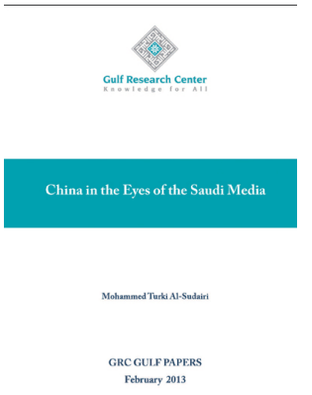
It is announced that Iraqi oil production has risen to the rank of third largest supplier to Asia region, especially for China, India and South Korea. In order to obtain more sustainable customers in Asia region, Baghdad has upped its pricing game - marking down Basra Light crude by $1.10 a barrel against rival Saudi Arab Medium, the lowest discount in nine years.

March 27

Japan's crude oil imports from Iran have dropped by one-third in February 2013 compared to the same month in 2012. Imports by Japan as Iran's third biggest crude buyer, is expected to continue to decline in 2013 following a drop of 39% in 2012.

March 29

Singapore LNG Corp, the island state's importer of liquefied natural gas (LNG), received its first cargo from Qatar. It will use the spot shipment to start operations next quarter. Singapore has been vying hard in order to become Asia's hub for trading LNG. However, Singapore has no long-term supply contract with Qatar. According to the International Energy Agency (IEA), Singapore is the most likely hub for trading natural gas. Singapore's new LNG terminal will serve a wide array of tankers and boost import capacity "far beyond" their domestic needs.

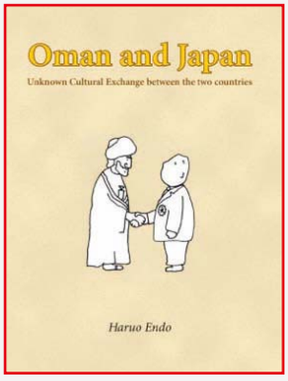


China in the Eyes of the Saudi Media

By: Mohammad Al-Sudairi
Publication Date: March 4th, 2013
Publisher: Gulf Research Center
Publication Category: Gulf Papers

Abstract: This paper is primarily aimed at examining the question of why Saudi public opinion, in contradistinction to wider regional trends and despite active promotion of bilateral ties, continues to hold persistent negative attitudes about China. Due to limitations in available surveys and polls, the paper draws on material taken from the Saudi media covering the period 2006-2012 and focusing on a set of political and economic topics with the hope of identifying existing themes and images about China therein. By examining how China is perceived by the press, and how the perceptions are conditioned by political messaging and populist sentiments, this paper hopes to uncover some of the sources underlying the Saudi population's negative perceptions about China. This study is a preliminary attempt at re-examining some of our widely-accepted beliefs regarding the dynamics shaping Sino-Arab relations, and especially public receptivity towards China.

Book Review



Oman and Japan
Unknown Cultural Exchange between the Two Countries
Haruo Endo
(Muscat: Muscat Printing Press, 2012), 192 pages; $20.80 hardback.

Reviewed by Makio Yamada, St Antony's College, University of Oxford, United Kingdom

Today – at a time when comprehensive knowledge of Gulf-Asia relations is desperately needed – one is struck by how bilateral relations have hitherto been scarcely documented by scholars. A vast ocean of knowledge has been largely owned by the closed circles of businesspeople and government officials, remaining untapped by the wider public. Haruo Endo, a Tokyo-based Gulf expert, perfectly fills in the gaps with Oman and Japan, an impressive historical account of Omani-Japanese relations in particular and Gulf-Asia relations in general. The book could only be written by Endo who has spent his versatile 79-year life as a business samurai of a Japanese oil company, a development assistance specialist working for the Japanese International Cooperation Agency (JICA), a foreign advisor to Oman's Ministry of Commerce and Industry, a research fellow at the University of Exeter in the UK, and a professional writer on Gulf affairs in Japan. For those who study Japan-Gulf relations, he is a living legend and a walking encyclopedia, who bridges the worlds of practitioners and academia. His previous three Japanese books about Oman, the Arabian Peninsula, and Omani-Japanese relations (the original version of this book), led him to be awarded an order by HM Sultan Qaboos in 2007, as the illustration on the cover tells us.

Although the book is mainly about Omani-Japanese bilateral ties in the modern period, it is also a collection of interesting anecdotes from the history of wider Gulf-Asia relations, which Endo even traces back to the Neolithic Age. He shows how Gulf-Asia relations have been constantly developing since then through exchanges of people, commodities, and cultures, finally becoming modern inter-state relations. He particularly spotlights those people who paved the way for today's close bilateral ties, such as Shigetaka Shiga (1863-1927), a Japanese educator-cum-politician who visited Oman and the Gulf in 1923, and Sultan Taimur (reign 1913-25), who married a Japanese lady Kiyoko Oyama. Based on those early ties, today's bilateral relationship came into its stride, Endo contends. The contemporary political, economic and social relations are subsequently examined in detail in the chapter "Oman and Japan since 1970." In the conclusion, Endo makes important suggestions for the future of Omani-Japanese relations. He advocates the promotion of Japan's soft power in the international community and says that Oman, which shares common values with Japan such as peace, "will be a good travel companion for Japan throughout the 21st century." To this end, he calls for broadening human exchanges at all levels, from the royal family and politicians to businesses and grassroots. The book also showcases more than a dozen photos of Gulf-Asia/Omani-Japanese cultural heritage. People would certainly benefit from having it on their bookshelf if they wish to broaden their understanding of Gulf-Asia relations as well as Oman and Japan.

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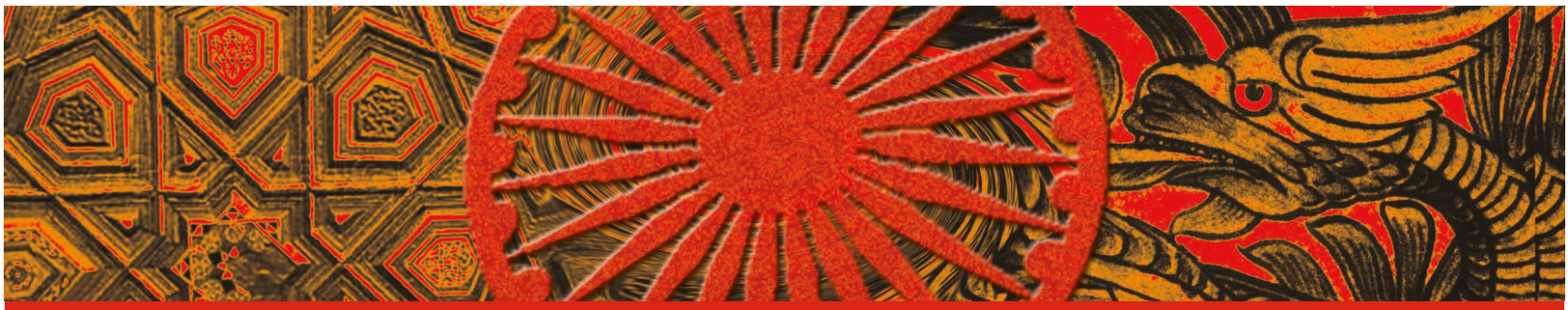

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Knowledge for All

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GRC Foundation Asia, Roppongi 4-4-4-33, Minato-ku, Tokyo 106-0032, Japan

Tel. No.: +81 3 6904 7121 | Fax No.: +81 3 6904 7122

Website: www.grc.net | E-mail: info@grc.net