What happens when the trader emerges from the shadows of the bazaar?

JAPAN IN THE MIDDLE EAST

by William O. Beeman

There is hardly a nation in the world with a more prominent economic and trade role in the Middle East than Japan. By the same token, few nations are as ill-equipped to deal with the region on any but strictly economic terms.

Japan's Middle Eastern trade has become absolutely vital to its economic well-being at the very time that political events have reached new levels of chaos in the region. Now in Tokyo voices are being raised in alarm at the shallowness of Japanese foreign policy for the Middle East. At a recent seminar, Toyoaki Ikuta of the Institute of Energy Economics stated flatly: "Japan has no ability militarily or politically to influence Middle Eastern affairs. If there is a problem in oil supply, of all the industrial nations Japan would be the hardest hit. Because of this, Japan must make a greater contribution to security in the Middle East."

And oil is not Japan's only interest. Last year Japan supplanted the United States as Saudi Arabia's number one trading partner in both imports and exports—this according to Masamichi Hanabusa, deputy general director for Middle Eastern and African Affairs in the Japanese Foreign Ministry. Trade interests in the other countries of the Middle East are equally strong. Any major political disruptions, particularly in the Persian Gulf area, where Japanese have enormous investments, would do irreparable damage to Japan's economy.

Paradoxically, it is Japan's seeming disinterest in the political affairs of other nations that provides one of its principal strengths in developing cooperative ventures in today's volatile Islamic world. Despite membership in the club of leading industrial powers, Japan is viewed as a neutral economic partner, interested in profits, not ideological influence. One result is that Japan rarely is forced to choose sides in the various conflicts that have embroiled Islamic nations in recent years. It has been able, for example, to keep up its economic activities in both Iran and Iraq, while France has been blacklisted by Teheran for dealing with Baghdad during the war between the two.

Now the Japanese are confronted with some new dilemmas that are forcing them to take positions on issues of importance in Mideast politics. The Arab-Israeli conflict is a case in point. When questioned on Japan's relations with Israel, the Foreign Ministry's Hanabusa remarked tersely: "We don't really have much trade with Israel." Of course support for Palestine is good for Japan's oil supply, and "trade" with Israel declined sharply after the 1973 oil shock. Still, the Japanese public appears to have consistently favored the Palestinians, perhaps out of a characteristic compassion for those they consider the underdogs in an international conflict. The recent Israeli invasion of Lebanon was condemned vehemently in the Japanese press, and there was an unusually vociferous public outcry against Israel from the public, indicating a strong feeling on the issue.

All this may explain in part the puzzling visit of PLO chairman Yasir Arafat to Japan in October, 1981. Not a spur-of-the-moment affair, it had been arranged the previous year at a meeting between Arafat and Toshio Kimura, president of the Japan-Palestine Friendship Committee and a former minister of foreign affairs. Although the Japanese Government officially maintained that Arafat's visit was a private one, the PLO leader was received by both the prime minister and the minister of foreign affairs.

The Arafat visit gave one important signal to the nations of the Middle East: Japan seemed willing and ready, under the right circumstances, to pursue a foreign policy independent from that of most other nations of the industrialized world—more to the point, independent from that of the United States.

In recent months the great economic and political problem confronting Japan in the Mideast concerns Iran. Nine years ago, in 1973, the giant trading house of Mitsui and Co. became involved in a joint-venture petrochemical operation in Bandar Khomeini (Bandar Shahpur) in the south. The project ran aground as a result of the 1979 revolution and the war with Iraq. Now Mitsui, suffering enormous losses, has declared the project dead. Iran continues to insist that the project is a test of the good faith not only of Mitsui and Co., but of the entire Japanese business community.

To understand the affair fully it is important to consider the role of the *sogo shosha*, the general trad-

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ing companies, in Japanese economic life. The *sogo shosha* account for the bulk of Japanese exports and imports, dominate the capital market, supply virtually all Japan's raw materials from abroad, and are perhaps the most important factor in the Japanese economy today. Their governmental counterpart is the Ministry of International Trade and Industry (MITI), which some call "the second foreign ministry," others "the *real* foreign ministry."

In many cases the *sogo shosha* constitute the dominant presence of Japan in a foreign country. Their officers meet directly with ministry officials in that country and, for all intents and purposes, are *the* Japanese representative in the eyes of its officials. In not a few cases, they have approached these governments to suggest aid projects that were subsequently funded by the Japanese Government. It is hardly surprising that foreign governments get the impression of a definite link between the *sogo shosha* and the Japanese central government. Such is clearly the case in Iran at present.

A TIME OF TESTING

In 1973 the National Iranian Oil Company had proposed the development of a petrochemical complex as a joint-venture operation with a newly created Mitsui entity called the Iran Chemical Development Company. The complex, scheduled to cost $1.3 billion, was to have been a major industrial showpiece for Iran. It was designed to produce petrochemicals both for domestic use and export and to help Iran diversify its economy by ending the domination of crude oil as its principal petroleum-income source.

Like many other petroleum-exporting nations, Iran had become convinced in the early 1970s that it made good economic sense to locate petrochemical production close to the source of supply. Why export crude oil at a low price only to import the chemicals made from that crude at a high price? Mitsui also felt there was profit in manufacturing petrochemicals in Iran with the oil that was now being shipped to Japan for the same purpose. And there was comfort in the knowledge that, under the shah, the Iranian Government would subsidize the venture so that at least it would not lose money, for such had already been the case with many other industries established to fulfill his dream of turning Iran into an industrial power.

The leaders of the new Islamic Republic had their own reasons for wanting to see the project completed. Stung by charges that they were doing nothing to develop Iranian industry and create more jobs, they seized on the then largely complete complex as a project that would demonstrate their ability to rebuild the economy. They trumpeted this to the Iranian people with every expectation of the complex being finished.

Fate decreed otherwise. By the close of the revolution, what with delays and overruns, the cost had nearly tripled, reaching $3.5 billion. Then the Iran-Iraq war began, causing major damage to Iranian oil facilities. The petrochemical complex itself was bombed, and an essential naptha-producing plant in Abadan was totally destroyed. Mitsui and Co. had been monitoring similar projects in Mexico and the OPEC nations, all of which were financial disasters.

It soon became clear that the Iranian petrochemical project could be completed only at enormous additional expense. Even then, it would be unable to operate at a profit, and in all likelihood Mitsui would never recoup its investment. Moreover, the Iranian Government was flat broke, and there was no hope of its subsidizing the project. Mitsui was desperate to abandon the entire affair.

Japan's Ministry of International Trade and Industry has an insurance fund to compensate companies suffering losses of this sort. Three other companies that suffered losses in the Iranian market during the revolution successfully petitioned MITI for full recovery this past April. MITI has announced that it will hear Mitsui's request for compensation should it choose to make one.

Before it can claim a loss, however, Mitsui must extricate itself from the project. The Iranians are holding fast to the contract, which binds Mitsui to complete the project under the joint-venture terms. Mitsui has offered to complete it, but only as a contractor—the balance of the expenses to be borne by the Iranian Government. Clearly Mitsui hopes that a way will be found to recoup its losses while it continues to work on the project with Iranian money. The Iranians are taking a hard line because they believe the Japanese Government will eventually bail Mitsui out—and with good reason, since MITI has already advanced some $40 million in emergency insurance to Mitsui largely to meet interest payments.

The Iranians have told the Japanese Government that the project is a "bridge" between the two nations that will ensure their cooperation in the future. The Japanese quite accurately interpret this statement as a veiled threat. One senior researcher at the Economic Research Institute for the Middle East, a private think tank serving industries with Middle East interests, is candid about the need to underwrite Mitsui's losses: "Well, it's really a kind of tax," he claims, "and we'd better pay it."

None of this is much comfort for Mitsui, which sustained a net loss of $53 million in fiscal year 1981—the largest loss in the company's history—and has seen its stock dividends cut by 28 per cent.

Through it all, Iran continues to sell oil to Japan. Mitsui itself recently purchased some six million barrels of Iranian light and heavy crude on the spot market. In June, the Iranian Government suddenly began to flood Japanese suppliers with orders for goods obviously destined for reconstruction following the end of war with Iraq. The goods were requested on the basis of a letter of credit, payment to be deferred for 180 days. With Iran so badly strapped for foreign exchange, and with the recent history of industrial investment there, Japanese firms are left to wonder if they ever will be paid.

In a recent lecture in Tokyo, a University of Texas specialist in Iran, James Bill, interpreted this as a test of Japan's resolve to hang into the Iranian market. A Japanese Foreign Ministry spokesman makes the additional point that the Iranians have tied their new purchase requests to reciprocal purchases of oil. The more oil bought, the more purchases the Iranians will make. Once again, the chief targets are the *sogo shosha*, which import the oil *and* supply the export goods.

"WEST OF BURMA"

These dealings with Iran have left a bitter taste in the mouths of the Japanese. Masako Shinkawa of the Economic Research Institute for the Middle East expresses some of the misgivings of the business community: "We really wonder if the Iranians are sincere in their relationships with us. They seem to change their position so often. Perhaps we are a little more comfortable with the Arab community. They are not so complicated."

It is probably not so much the Arabs themselves as the nature of Japan's trade with the Arabs that is relatively uncomplicated. Japan's great success in its business dealings with the Arab world has been based largely on the clearly beneficial nature of the exchange: Japanese consumer goods and industrial equipment for Arab oil. Here Japan is in the enviable position of being both a good customer and a supplier of desirable goods. In such an easy market it has not been particularly necessary for *sogo shosha* and other industrial concerns, or the Japanese foreign service, to recruit individuals with particular expertise in the Middle East.

This cavalier attitude is in part an outgrowth of Japan's history. Virtually closed to the world from the seventeenth to the mid-nineteenth century, Japan largely confined its foreign interests to East Asia in the hundred years before World War II. And in fact, until 1973, when prices for crude skyrocketed, service "west of Burma" was the least desirable foreign posting for private individuals as well as government officials, and not much of an aid to a foreign service career.

Today, however, there seems to be a dramatic reversal. Ambassadors and other top-level foreign service staff in the Middle East are drawn from the top ranks of Ministry personnel. A few specialists in Arabic are recruited on a regular basis, and young people consider the Middle East an exciting posting. Still, the Ministry of Foreign Affairs is critically understaffed. The largest Japanese embassies in the region are in Egypt and Saudi Arabia, yet their combined staffs number only around twenty-two, not including local support staff. (The entire Foreign Ministry staff throughout the world is only 3,300—perhaps giving Japan the highest ratio of foreign service representatives to population of any industrialized nation.)

In academic circles, awareness of the Mideast is also increasing. It is now possible to learn Arabic in a dozen universities, though Persian, Turkish, and Hebrew in fewer. While estimates differ, there are perhaps three to four hundred academic specialists in the Middle East. Student interest is on the upswing too, but many young people study Middle Eastern languages and cultures only to be absorbed into the corporate world, becoming "salarymen" with little chance to use these specialized skills.

One University of Tokyo Mideast specialist has pointed out a looming problem: "Now our relations with the Arabs are relatively good. We are a steady customer for their oil even during a glut market. But now we are also determined to reduce our consumption of oil. Will our relations remain so good then? It will be during these more difficult times that we must have the cultural and language skills to deal with our Arab friends."

Indeed, Toshiro Tajima, the Japan Industrial Bank's energy specialist, recently indicated that Japan *is* gradually reducing its energy requirements *and* reducing its oil dependency for the energy it does produce. Whereas in 1980, Japan imported 285 million kiloliters of oil to meet its energy needs, projections for 1990 are for only 288 million kiloliters—virtually the same amount. Japan's dependency on foreign oil will thus be reduced from 66 per cent of its energy requirements to 49 per cent.

Surely this shift will produce dramatic changes in Japan's political relations with Middle Eastern states, which up to now have exerted on Japan none of the pressures to reduce exports and increase imports that have been brought by the U.S. and European countries. It is for this reason that individuals like Toyoaki Ikuta of the Institute of Energy Economics are arguing for an increased diplomatic role for Japan. Japan must have better insurance for rough times ahead. Although it may reduce its dependence on foreign oil, Japan will find petroleum products from abroad essential to support its civilization. Ikuta suggests Japan stake out a role as mediator between oil-producing and oil-consuming nations. Aware of the true focus of power in Japanese foreign policy, Ikuta reportedly has sold his plan to Shintaro Abe, minister of MITI, rather than to the Ministry of Foreign Affairs.

The Foreign Ministry's Masamichi Hanabusa remarks somewhat wryly concerning this proposal: "When you want to be a mediator, then you have to have something to mediate. In a seller's market, the oil producers see no need for mediation. In a buyer's market, the oil consumers see no need for mediation. So what kind of meaningful role can Japan have?"

Still, the feeling lingers that Japan's present policy, with its bias toward investment and trade, is somehow not broad enough. The brief encounters with the ideological currents of the region, as in dealings with the PLO and with the Iranians, reveal that the Japanese are still relatively uncomfortable when they stray out of the marketplace. This does not deter those seeking a more active role—even a mild military one—for Japan. "I personally believe that if U.N. forces were to be sent to defend the oil transit routes of the Gulf area, that Japan should send troops to join those U.N. forces," declared oil specialist Ikuta.

This scenario seems unlikely, but few would deny that the time is rapidly approaching when Japan will be called on to come out of the shadows of the bazaar. Japan has shown much wisdom in its dealings throughout the world, but it has yet to be truly tested in the Middle East. The history of other industrial nations' volatile relations in the region attests to the seriousness of the challenge. It will be interesting to see whether Japan is able to do a better job than its predecessors in Mideast politics. WV