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JAPAN AND THE MIDDLE EAST SINCE THE OIL CRISIS OF 1973

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JAPAN AND THE MIDDLE EAST SINCE THE OIL CRISIS OF 1973

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JAPAN AND THE MIDDLE EAST SINCE THE 1973 OIL CRISIS

A case study for the Senior Seminar in Foreign Policy,

Eighteenth Session

McKinney H. Russell

May 7, 1976

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Preface

In the following account of the way relations have developed between Japan and the major oil producers of the Middle East since 1973, I have not drawn upon any expertise of my own in either area. Neither assignments nor travel had taken me to either region before this spring. The paper may have gained in objectivity by being written from a fresh standpoint, one unencumbered by prejudice or much detailed prior knowledge.

I talked to a number of specialists in the two areas and in energy policy at the Department of State, Central Intelligence Agency, U. S. Information Agency, and the private sector, prior to beginning my field travel at the end of February. Their generous readiness to share insights and perceptions was very heartening. For the sake of completeness, not to share the blame for any of the author's possible errors or flawed judgments, the names of those whom I interviewed or consulted, before, during, and after the trip, are listed in Appendix 3.

Of particular value in my researches and reading were the just-published Brookings study of the Japanese economy, Asia's New Giant, the Gibney and Brzezinski books mentioned on page 1, Edwin Reischauer's Japan, and the typescript of the soon-to-be-published study of Japan's postwar foreign policy edited by Robert Scalapino. Two prime sources were CIA's periodical International Oil Developments and the London monthly Petroleum Economist. Reporting since 1973 from our embassies in both areas was invaluable.

The travel undertaken to gain a first-hand sense for the issues involved took me to Tokyo for nine days, Saudi Arabia for five (one in Dhahran and four in Riyadh), Kuwait for two days, and Paris for three, in that order. Plans to visit Iran fell prey to the unpredictabilities of travel in the Mid-East. The itinerary was set in the hope that I would see the Middle East and Japan's problems there more clearly directly after a series of substantive encounters in Tokyo. I felt better prepared to put pertinent and relatively intelligent questions after the exposure there. The Paris stop, for talks at OECD and the International Energy Agency, proved most useful in putting Japan within the context of her fellow petroleum consumers.

The depth of the paper and of its conclusions are necessarily limited by the briefness of the trip and the author's newness to the field. A number of important potential informants were not seen--representatives of the major trading companies in Tokyo, for example, or of the government in Kuwait. The extreme forthcomingness and cooperation shown by State and USIA officers along the route helped make up for these lacunae and were most appreciated. A special word of thanks goes to Barbara Dorset for typing the case study in final form.

Since experts in each area may find little in their own field of specialization which they did not know before, it is my hope that they will gain certain new perceptions about the other of the two areas, each in its way one of prime national concern to the United States. Newcomers to both and to the energy field, like the author, may find the issues somewhat easier to sort out, described as they are here, perforce, in layman's terms.

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CONTENTS AND SUMMARY

The paper is in five major sections:

In Part I the panic and disarray in Japan which followed the "oil shock" in October 1973 are recalled. Prices rose suddenly, as the major oil producers flexed their cartel muscle. Far more ominous for the Japanese, with their unique reliance on imported crude oil (virtually 100% of all the country consumes), was the announcement of progressive cutbacks in production beginning with a 5% reduction in that month.

Japan failed to win a "friendly" label from the Arabs and as a "neutral" faced a steady decline in her oil supply from the Arab producers who accounted for nearly half of it. By mid-November a tilt toward the Arab side in the Mid-East conflict looked inevitable to the Tokyo government and it came to pass on the 22nd. By the time the Japanese government had "deplored" Israel's continued occupation of Arab lands and issued a veiled threat to break off relations, industry had been ordered to reduce energy consumption by 10% for the rest of the year and to move toward a five-day week.

The new policy line led to the Japanese' being exempted from the November cut in supply, but the earlier cut remained in force. Deputy Prime Minister Miki undertook a propitiatory journey to the Middle East in early December, offered Egypt a Suez loan, and promised all sorts of technical aid to other Arab states. He was rewarded even before he got home again with OAPEC's certification as "friendly."

Supply worries receded fairly rapidly although conservation measures, very non-draconic, stayed in effect into the new year. Price rises put Japan before a different sort of challenge and there was a balance of payments shortfall of nearly $2 billion in January 1974 alone. Since then, the price rise has been digested and even at the $20b. annual rate in 1975 could be paid without special hardship. Worry about oil supply has slipped further back in the public's consciousness and when the Minister of International Trade and Industry visited the major producers this January the trip was not even front page news in Tokyo. If the public is relaxed, policy makers are not.

The diplomatic response, as described in Part II, has seen a striking increase of staff strength focused on the Middle East, in Tokyo and in the field. The Foreign Ministry's Middle East division, under the driving new leadership of Ryohei Murata, has doubled in size and moved upstairs. The new fiscal year beginning April 1, 1976, should see diplomatic representations increase further in size--Embassy Cairo is scheduled to have 18 officers against 10 in 1973, the increase in Jidda should be 14 over 5. New embassies have opened in Jordan, Libya, and the UAE. From an understaffed backwater the division has gained prestige and influence, has upgraded Arabic teaching, and even recruited several officers laterally from outside the Foreign Ministry.

Murata notes that diplomats in the area are called upon to report heavily on all aspects of the Arab-Israeli conflict, get intimately engaged in the oil issues, press technical assistance programs, and seize all appropriate chances to tell Japan's story in public forums. The misconceptions he sees as still abroad in the lands of the Mid-East relate to its decision-making tempos, its relationship with the U.S., and the "Japan, Inc." notion of a monolithic government-business complex.

The oil-supplying countries and the purchasers of Japanese exports are the clear leaders in Japan's priority listing on countries in the area; and Murata's pragmatism contrasts with some of the earlier thinking in the Foreign Office. Foreign information policy focuses strongly on Arabs and Iranians and the Public Relations Division is hard at work on the first bilateral interest film it has ever made: working title is "Japan and Iran" and the script has them "walking the path of true friendship." New films and publications are appearing in Arabic and Farsi at a high cost for the meager Japanese information program. More Mid-East visitors are being invited on official junkets to Japan and the Foreign Office and Japan Foundation are intent on forging a new and strengthened cultural thrust in the region, with education and training efforts in the vanguard. It moves slowly.

Except for pressures concerning PLO presence in Tokyo and certain UN votes, the pro-Arab stance of November 1973 (plus the sluggish demand for crude world-wide, one assumes) have sufficed to keep the Japanese largely free from further arm-twisting by the Arab states. Both the Foreign Office and MITI have moved far in their support for Japan's participation, if not activism, within the International Energy Agency.

There follows an analysis of Japanese attempts to lessen reliance on crude oil from the Mid-East in Part III and it's noted that they have experimented with government-to-government purchase deals, given support for more direct Japanese investment in major projects in the region, pushed exports, diversified sources of oil and gas, encouraged energy conservation, and looked for alternate energy sources. The GG deals have not materialized beyond the arrangement with Iraq which pleases neither side and the effort to work out others has subsided completely. Recession and some unhappy experiences with government support for big projects seem to have led the government to pull back and to eschew a leading role. The large companies are in front but seem not to be doing as well as the initial government engagement had given hopes that they would. An intensive export drive has seen striking advances in absolute terms and in share of market; and it has helped generate part of the earnings needed to pay the oil bill, now over three times what it was three years ago. It seems questionable, though, that the thickened trade links will necessarily improve Japan's chances of pulling through a possible future oil crisis.

The diversification outlook is not very bright. Exploration has yielded a piddling seven strikes for the Japanese since 1973 and efforts to forge a single, efficient exploration company out of the 60-odd small ones hardly move forward. Most of the promising crude sources have simply gone to others already. The prospects for a needed reorganization of Japan's petroleum industry--the country still relies very heavily on the foreign majors and does not have a single vertically integrated company--are murky. Dealings with Asia's two biggest non-OPEC producers, the USSR and China, point to much more significant opportunities with the latter. The long-bruited Tyumen deal involving LNG from western Siberia is now quite dead; and despite the agreement this spring on exploration in the Yakutsk region, partially funded by Japanese and U.S. banks, a long road is ahead before significant quantities of LNG from there will flow to the Japanese grid. The Chinese prospects are heavily touted by some in Tokyo. After some discussion of their actual potential, it is concluded that a steady rise in availability, nothing spectacular, is a fair expectation. Restraining factors are the physical limitations on what can be produced and transported, as well as the political danger which many see in substantial reliance on Chinese supply.

Conservation and the development of other energy sources are factors given substantial weight in the government's main indicative document, the energy demand and supply projection for 1985. Savings achieved primarily through more rational energy use by industry are seen as capable of saving over a million barrels a day of projected needs in crude-oil equivalent. This seems ambitious, as do the anticipated rise in LNG's share (a ten-fold percentual increase) and that of nuclear power, which is seen as accounting for almost 10% of total energy requirements. The table on page 17 which is drawn from the 1985 prediction shows what the energy picture looked like in 1973 and compares it with the forecast of its aspect in 1985.

The Japanese have, on the evidence, lived up well to their commitment to consumer cooperation within the IEA. They have taken some very difficult decisions on proposals, like the minimum safeguard price, which ran the risk of appearing "confrontational" to the producing countries. A careful middle line is walked between the imperative to cooperate with fellow-consumers, above all the United States, and the continuing reliance on the major producers. The CIEC machinery has proven helpful in this. An interestingly overstated view on just how far the Japanese have come in subordinating their needs and interests to those of other consumers came from one key official who said the Japanese no longer had any relations of their own (outside the IEA context) with the Mid-East producers.

Conversations with several score Japanese, Arabs, and Americans are the basis for Part IV of the paper, in which the intensified contacts between Arabs and Japanese are considered in an effort to gauge the relationship's chances for positive growth. The Japanese in Tokyo were virtually of one voice in playing down their knowledge of the region and possibilities of success, and there is intense and disciplined effort to get to know the territory. On the spot, one found rather more going for the Japanese than was anticipated on the basis of these encounters, as well as a great deal of criticism of their ways of operating from resident Americans. The latter did not come across as very well founded. Several of the problem areas in business relations between Japanese and Arabs, specifically those in Saudi Arabia, were noticed and discussed. Credit guarantees, joint ventures, rising costs, bottlenecks, and competition are making the Japanese' path toward the major projects quite thorny.

The problems facing the Japanese in living and operating in the Middle East, as noted in the final section of the paper, seem rather less forbidding when seen up close. One cannot be as optimistic as some who claim that the Mid-East producers now need Japan as a market just about as much as Japan still needs their oil. The great vulnerability is still there, even though consumer cooperation has made it less frightening. Although Japan has succeeded very well in rebuilding its reserves and increasing exports to pay for most costly oil, no one expects that a return to earlier growth rates is conceivable.

The expanded Japanese commercial presence in the Mid-East is seen as a natural aspect of her attempt to better relations across the board with producers; and the hope expressed that the Japanese presence will not provoke the resentments like those in some other parts of the world. And closer coordination of American and Japanese policy in the area, and not on energy alone, is urged.

JAPAN AND THE MIDDLE EAST SINCE THE 1973 OIL CRISIS

I. THE OIL SHOCK AND AFTERMATH

BEGIN LIMITED OFFICIAL USE.

The first major tremors of the <u>oiru shokku</u>--the oil shock--of October 1973 struck Japan swiftly and with little warning on successive days, the 16th and 17th. Six Persian Gulf producers, among them non-Arab Iran, upped the posted price of their crude oil by some 70% to over $5 a barrel. Representatives of the Organization of Arab Petroleum Exporting countries, assembled in Kuwait to wield the oil weapon against Israel, announced on October 18 a cut in production by at least 5% each month beginning in October. Progressive cutbacks at the same rate would continue until total Israeli withdrawal from territories occupied in 1967 and full restoration of the Palestinians' rights.

Japan's unique dependence on other countries' oil for its astonishing economic growth--99.7% is imported and this accounts for over three-fourths of its energy needs--earned for it the modifier "fragile" in the titles of the two widely read recent studies of the country.* With its memories of the Japanese military's use of the American oil embargo in 1941 as a major excuse to hit Pearl Harbor, as well as broad public awareness of the nation's far greater reliance on oil imports in 1973, the country felt fragile indeed--and very jittery--on October 18. Japan was closely identified now with the U.S. on most international issues and its Arab oil suppliers (with 44.7% of total imports at that time), had also just thundered anathema against the United States with a total embargo. Further, some 75% of imports from all OPEC countries, including major supplier Iran, were reaching Japan through U.S.-based international oil companies. (Virtually the first published reaction to the production cuts was a warning by the Vice-President of the Petroleum Association of Japan of a "strong possibility that major Western oil interests will cut their crude oil supplies to Japan... giving priority to supplies to their own countries.") Lastly, uncertainty about American abilities and intentions was daily fueled by Watergate--the Saturday Night Massacre was to take place two days later.

Tokyo's influential Ministry of International Trade and Industry (MITI) lost no time in announcing on October 18 that countermeasures to the anticipated production cut were coming, including restrictions on domestic oil consumption. There was hope from MITI and the press that Japan, nearly all of whose firms were strict observers of the Arab boycott of companies contaminated by Israeli links, would be dubbed a "friendly" nation and suffer relatively little from the production cuts; or that a cease-fire favoring the Arab side would lead to a dilution of the cutback action, if not of the price hike. Very soon these hopes were scattered as a cease-fire was reached which lessened in no way the Arabs' determination to keep the oil weapon firmly in hand; and Japan, to its great displeasure and shock, failed to win the friendly label. When OAPEC announced that Japan had been adjudged "neutral," Saudi Arabia had already informed the Japanese-owned Arabian Oil Co., supplier of about 5% of Japan's crude requirements, that it would have to cut production 10% by the start of December and be ready for more reductions later. The major international oil companies got similar instructions from the OAPEC lands where they were lifting.

<u>The tilt</u>

Diplomatic urgings by Arab ambassadors that Japan act quickly to abandon its even-handed position on the Mid-East conflict were resisted in Tokyo, but not for long. While stopping short of severing ties with Israel, as some, including Saudi oil minister Yamani, had demanded, the Tanaka government did bow to pressures and to the realities of vulnerability. By the time Tokyo had decided on its November 22 pro-Arab tilt, a second OAPEC oil ministers' meeting

* Z. Brzezinski, "Japan, The Fragile Blossom" and Frank Gibney's "Japan, The Fragile Superpower."

in Kuwait had decreed a total production cut of 25% below September levels by the end of November, MITI had warned that oil shortages would cut back economic growth severely, and Japanese industry had been directed to reduce energy consumption by 10% for the rest of the year and to go to a five-day week. In face of all this, the Japanese government elected to "deplore" Israel's continued occupation of Arab lands, called upon her to withdraw, and warned that it would have to "reconsider its policy towards Israel," i.e., weigh a diplomatic rupture, in the light of that country's reaction.

A quick pay-off followed. On November 27 the Arab League exempted the Japanese from the consequences of a further 5% production cut in December in light of their enlightened stance toward the Arabs' cause. There was stated regret but muted understanding in Washington for the Japanese decision, though some observers saw in this step a potential longer-range danger for U.S.-Japanese relations if it should later make it easier for Tokyo to take a position at variance with U.S. policy. Little that has happened since 1973 has given substance to this fear.

The Miki mission

From the start, MITI was more eager to conciliate the Arabs than was the Foreign Office, largely because of the latter's greater sensitivity to American reaction, both in Washington and in New York banking circles.* The Arabs had waved off the sending of a special envoy to the Middle East in October, as MITI had urged. As December began, though, and the time of actual shortages grew closer--Japan had had 55 days' stock of crude in the islands on October 17 and about 20 more days' supply stretched out across the sea lanes from the Gulf--it was easy to decide to dispatch the then Deputy Prime Minister Takeo Miki on a special mission to the Middle East. He was to visit eight countries to explain Japan's new policy and to talk about economic aid programs. With the initial cease-fire already reached, it was also felt in Tokyo that he could by then expect a rather more cordial welcome.

This turned out to be the case. Miki showed himself to be open and responsive to proposals for a whole range of technical projects in the oil-producing countries and their non-oil brother Arab states. The only hard commitment he made was for $140m. as a low-interest 25-year loan to help widen and deepen the Suez Canal, but he left the Arab capitals with great expectations for more to come. The loan to Egypt, which won Sadat's promise to speak up strongly in Arab councils on Japan's behalf, taken with Miki's general promises of development aid, won from the Arabs the sobriquet "friendly" for Japan even before the mission got back to Tokyo on December 28.

Saburo Okita, now head of the Overseas Economic Cooperation Fund in Tokyo and a senior economic advisor to the government for many years, accompanied Miki on his December 1973 mission. The group was "frankly scared" for the country's future, Okita recalls, and its relief was vast when the results of the December 25 OAPEC parley in Kuwait were announced. Japan, newly friendly, did not have to fear being the victim of any further production cutbacks. The Miki party was airborne between Tehran and Baghdad when the news was received and Okita says it touched off "general delight and rejoicing" on the plane.**

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* Then MITI Minister Nakasone has been quoted as having urged a far stronger "tilt" to the Arab side, citing the Nixon <u>shokku</u> of August 1971 and American soybean export controls in early 1973 as justification. Several observers see the Miki visit to New York and Washington after his December 1973 trip as evidence of the Foreign Ministry's alertness to possible U.S. resentment of the new pro-Arab line.

** He also notes that an argument he had urged Miki to use with Arab leaders had proven effective, especially with King Faisal. This was that the dependence of many Moslem countries in Asia on Japanese products like fertilizer and steel meant that the secondary effects of oil cutbacks for Japan could be hurtful to the Arabs' co-religionists.

Supply crisis fades

In Tokyo, on the day after Christmas, the country's new status led MITI to postpone a planned 20% cut in industrial oil consumption scheduled to go into effect on the first of the new year. When the reduction was later announced, on January 11, it was only in the 5-15% range for use of oil and electricity and was not to take effect until the end of February. As the supply picture improved further, this was reduced on February 19 to a 10% maximum; and within a few months allowed to lapse altogether. Despite the defusing of the country's worry, the government's edginess about future supply did not dissipate in those early months of 1974. The embargo against the U.S. was in effect until March and there were Miki's markers to be covered. Former Foreign Minister Zentaro Kosaka and MITI Minister Nakasone followed up on Miki's hegira with trips to the area in January and February. They fleshed out most of the commitments he had made, offered additional sweeteners, and promised Japanese support for a broad range of projects. Looking back, there is some embarrassment in Tokyo now over this undignified scramble to play up to the oil producers, but the world and its perils looked different in that winter of 1973-4.

During the first half of the new year, fears of an economic nose-dive in the short run due to energy shortages were gradually replaced by a concern over price. Six Gulf states, again including Iran, had announced on December 23 that prices would be doubled from January 1, 1974, to a dizzying $11.65 a barrel.* A state of emergency had been declared by Prime Minister Tanaka the preceding day as the cabinet approved an austere inflation-fighting budget for the new year. No one believed that the Japanese economy could adapt to quadrupled oil prices and maintain anything like the annual growth rate of 10%-plus to which it and the world had been accustomed. The year 1974 would in fact see the country's output of goods and services actually shrink by 2%. The balance of payments deficit for 1973 had topped $10 billion by the time the year ended and the oil price rise pushed the BOP shortfall to $1.93b. in January 1974 alone.

In the two years that have passed, the crisis has receded in the minds of Japan's public. The oil bill was $20 billion in 1975, over triple the figure for 1973, but it was paid without much pain. Polls show that people are still very much aware of the country's dependence, but there is plenty of oil for all uses now--and the visit to the Middle East oil producers by Nakasone's successor Komoto, in January of this year, was not even front page news in Tokyo.

The public may be relaxed in this current buyer's market, but the oil cartel was able to impose another 10% price rise as late as October 1975 and the country's dependence on foreign oil is essentially undiminished. There is no relaxed feeling among those who make foreign policy toward the oil-producing states and those who must plan ways to satisfy the country's energy needs. The two sections which follow analyze their efforts and achievements.

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* This is the old "posted price" used for tax calculation purposes. It included royalties, tax, government revenues, plus several other price factors. The estimated sales price to the international oil companies which owned concessions went to $7.60 at the beginning of 1974. This was a 260% rise over the sale price one year earlier. Since October of last year the benchmark sale price for Saudi Arabian light crude has been $11.51 a barrel.

END OF LIMITED OFFICIAL USE

II. THE DIPLOMATIC RESPONSE

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The crisis period witnessed, predictably, a big increase in diplomatic activity between Tokyo and the Middle East. In the span of just a few weeks at the turn of 1973-4 the Japanese hosted the Syrian Foreign Minister, the Director of Abu Dhabi's Executive Council representing United Arab Emirates, Algeria's Industry and Energy Minister, Saudi Oil Minister Yamani, and the Egyptian Prime Minister Hatem. The Foreign Ministry's Middle East Division then had 17 officers responsible for 22 countries from Morocco to Afghanistan. Representation was equally thin in the area and Jordan, Libya, and the UAE had no embassies at all. I was told that the Jidda Embassy did not even have a telex link with Tokyo in 1973, but find that hard to credit. That the story was told, though, is its own comment.

To right things the Foreign Office chose Ryohei Murata, then political counselor in Washington, a member of the Americanist club, and a successful negotiator in many sensitive areas including textiles. In April 1974 he described his problems in these terms to two official American visitors: he had found general understaffing, Ministry reluctance to release budget and people despite pressure from the Foreign Minister, resistance to assignment of younger officers as ambassadors in hot hardship areas, a dearth of qualified officers with area knowledge, and the absence of background material on other than bilateral issues to permit Japanese ambassadors to press for host governments' support on matters that matter to Tokyo.

The staff build-up

A lot has changed and grown since then, as Murata told me during a talk in March of this year. The Middle East Division has been split in two, he said, with the oil producers lumped in one and Israel, Egypt, Jordan, and the rest in the other. Each section is now as large as the whole division previously had been and its new status shows in the much larger offices it now occupies several floors higher in the Foreign Ministry. The section in the Economic Affairs Bureau which is roughly the opposite number to the State Department's Office of Fuels and Energy has been elevated to division status, now has 12 officers, and gets as much of the IEA and CIEC action as it can wrest from MITI.

In the field there are now embassies in all capitals except Manama. Seventy-one was the number of diplomatic personnel posted in the Arab Middle East plus Iran in 1973. The budget proposal for the new Fiscal Year which began April 1, 1976, was for 125, reflecting increases over 1973 levels, e.g., of 10 to 18 in Egypt, 5 to 14 in Saudi Arabia, and zero to six in the UAE. Most of these are new positions, according to Murata, and it has been very difficult to find the right people. There have even been cases of lateral entry--a concept distinctly foreign to the Japanese notion of single-track, single-institution careers.* Among the incumbents of the new positions will be a number of people on detail from other ministries: MITI is naturally well represented, having added men already in Baghdad and Beirut, and the Cairo Embassy will have officials on loan from the Ministries of Transportation and Finance. The latter ministry is already well represented at Japanese Embassies in the area. Each of them, according to an investment banker with whom I talked in Kuwait, has specific affiliation with one of the major banks--the Financial Attache, for instance, in Kuwait also represents the interests of Sumitomo Bank and his colleague in Jidda, my informant thought, the Bank of Tokyo.**

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* I talked with one of them, a journalist named Yuzo Hatano, who seemed bemused and a little diffident at the idea that he was no longer a Mainichi-man after 22 years carrying that card of identity.

** A recent report in the Washington Post says that Tokyo has sent bankers as diplomats, following crash courses in working overseas, to Jidda, Abu Dhabi, Kuwait, and eight other missions. Just where each man's allegiance lies, with the Foreign Office or his bank, is not too clear.

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* The Embassy in Kuwait was the only one I was able to visit on this trip. It is a crowded, modest, rather down-at-heel one-floor installation in a downtown office building--and is directly under the headquarters of OAPEC. The Ambassador's reputation is that of an urbane and well-liked diplomat without great substance, and his DCM, Shin Watanabe, whom I called upon, seemed alert and highly motivated to carry out just these instructions. His Arabic sounded serviceable, his English was good.

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"Public relations"

The Overseas Public Relations Division, which is the media arm of the Foreign Ministry, has been headed by Masaki Yagi since last year. Under his urging it has discovered some other links between Japan and the Mid-East. Like the geisha great-aunt, they seem rather attenuated.

The division is currently at work on the first "bilateral interest" film the Japanese government has ever made (with the exception of documentaries on state visits and the like). With "Japan and Iran" as its working title, the 28-minute Farsi-language film traces the friendly ties between two Asian empires which date back, it appears, to the 7th century when the trans-continental Silk Road joined them. Among the film's visuals will be the Iranian honeysuckle depicted in the rooftiles of the ancient Japanese capital at Nara, the Shah's visit to the Asian games in Japan, and a telegraphic typewriter developed in Japan to transmit in Farsi. "Thus," the script intones, "Iran and Japan are literally walking the path of true friendship with a firm and steady gait."

The staff and funding of Japan's overseas information program are still among the meagerest of all industrial powers. There are 24 badly overworked people on Yagi's staff at the ministry who project and explain Japan abroad, provide most of the informational materials for embassies world-wide, and supervise the work of all press attaches. They spend a good deal more of their time and money in Mid-East-related programing than ever before and have cut costs correspondingly in other areas. Besides work on the Japan-Iran film project, the division began publishing Arabic and Farsi editions of the world-wide slick quarterly Japan in spring 1975. All of the six documentary films which the division does each year (sample titles: "A Japanese Training Center for Foreigners" and "The Energy Problem") are now being produced at considerable cost, in both Mid-East languages as well as the usual European versions. Four videotape programs, the yearly output, are also to be in Arabic and Farsi henceforward: and one, with another phenomenon in mind which links Japan and Iran, will feature Japanese techniques of earthquake-proof construction.

This same pattern of shifted resources is reflected in the way the division has been handling Japan's International Visitors' Program. The number of all-expenses-paid IVP grants to Middle Eastern visitors, like Omar Ali Afifi, editor of the Jidda weekly Okaz, more than doubled, to 11, in JFY 1973 and increased further to 18 in 1974. The rising costs of these invitations, all of which are first-class and extend to the visitor's wife in most instances, are borne by Yagi's budget. He says they show the increased relevance of his Division, but seems troubled by their cost and wonders if more timely information for overseas audiences might not be a better place to put his resources. It has not gotten noticeably better since 1973.

On the cultural front

Just across the hall from Mr. Yagi's harried staff, one finds in the Cultural Affairs Department the same eagerness to be relevant--and similar uncertainties about how best to proceed. Deputy Director-General Toshio Oshima, who led a six-man cultural mission to the area earlier this year, notes how very few things Japan has in common with the Middle East. In light of its importance as oil supplier, market, and power in international forums, "we must build the bridges consciously," Oshima says.

He and his colleagues have not yet agreed on what cultural policy ought to be, though the consensus is currently taking form. Educational links based on the development needs of the region look now to be the most promising area, specifically at the university and technical institute level. (Only Iran and Egypt are seen as promising stops for Tokyo's offerings in the performing arts, the other countries seen as "too underdeveloped still." The two chairs in Japanese Studies endowed by the Japan Foundation recently in Cairo and Tehran are not much of an answer--their focus is on language and literature and they contribute little to the opening up of Japan's potential for training (and bridge-building) in technological fields, Oshima thinks.

Yoshiro Mudaguchi, the influential Asahi Shimbun editorialist who was a member of the Oshira-led fact-finding group, criticizes the lack of initiative on Japan's embassies in cultural fields. The group's passage, for example, led to an Iraqi request for 150 training places in Japan, costs to be borne by the Baghdad government. The embassy there should have spotted this need itself, without the assistance of visitors. Both he and Oshima look to an expanded role for the private sector in improving cultural, read educational, relations. Significant increases in funds are not expected by the Foreign Ministry and since Japanese businesses operating in the area have a strong interest in seeing cadres of Japanese-trained and Japan-oriented people come into being, they ought to encourage this by offering training and jobs later. Mudaguchi even proposes that all firms operating in the Mid-East ante up 1% of the value of their investments to support a fund for training.

A detailed statement on the thrust of Japanese cultural policy in the Middle East should appear later this year. Any major new initiatives will await its publication and their shape at present is very hazy. The same inhibitions and uncertainties which plague Japanese cultural policy elsewhere are present here, perhaps in intensified form.

The Japan Foundation, in its fourth year and drawing on the interest from a capital fund that has now grown to over $100 million, is now, and is likely to remain, the most active government-supported agent fostering cultural ties. Its emphasis on academic training (and on karate and ikebana instructors) makes it look too "soft" to many, even to its own General Affairs Administrator, Tadao Araki. He notes that over 1000 Iranians have gone to Japan to learn the language and technical subjects in recent years, but that virtually all came "in the economic context," sponsored by Bridgestone Tire or one of the other Japanese companies which are active in Iran. His comments made clear his view that the Foundation did not expect to engage in more "practical" activities in the area, despite its increased importance for the country.

The Foundation played a big role in organizing and financing the Exhibition of Masterpieces of Japanese Paintings (sic) which is being shown in Cairo, Kuwait, Doha, Manama, Abu Dhabi, Dubai, Muscat, and Riyadh in the winter-spring of 1975-6. On a scale without precedent for Japan in the area, the exhibit of 33 outstanding works was funded by government grants, the Japan Iron and Steel Federation, several oil and trading companies, and the Breweries Association of Japan. The elegant slick-paper catalogue, with its full-color reproductions of all the works in the show, is adapted to each city through the inclusion of a welcoming statement from the successive chiefs of state to go with messages from Prince Mikasa and Prime Minister Miki. By design or not, feudal and military themes are prominent in the works exhibited. All in all, an impressive major effort, one calculated to flatter and inform its hosts and evidently successful in doing so.

Pro-Arab enough?

(b)(1) (a)(3)

In the political sphere, the November 22, 1973, statement which set Japan's course in support of the Arabs has since then generally satisfied most Arab sensibilities. the only political issue which they have raised with much insistence relates to the PLO office in Tokyo. The Arabs would like for the office to have gotten diplomatic status but have not made too much of a case about it. And there have been no threats that the oil weapon might be used to force political payments here on in any other domain.

(b)(1) (a)(3)

(b)(1) (a)(3)

(b)(1) (a)(3)

The General Assembly voting each fall gets heavy attention in Arab capitals and Japan is often unfairly singled out for Arab criticism when it votes just as the West Europeans do on issues for which the latter do not draw any barbs. the Arabs tend to see the Japanese, because of their extreme oil vulnerability (and their isolated racial and geographic position) as the weakest of the industrialized powers

(b)(1) (a)(3) (a)(5)

As concerns the Ministry of International Trade and Industry, there was no need for an extensive reorganization at home because the integrated Energy and Natural Resources Agency had been created by MITI just the previous July. The new Agency, whose function is to oversee the whole domestic and foreign energy landscape in all its elements--oil, natural gas, coal, nuclear, etc.--moved with dispatch after the crisis to establish as much of a corner on the energy action as it could. Its role has been central to most of the actions analyzed in the next section of this paper.

III. NEW DIRECTIONS IN ENERGY POLICY

In political and diplomatic terms, the tension and danger for Japan that came with the oil crisis have been in steady recession during the last 30 months. The Foreign Office has tried, with some success, to bring its cadres and area knowledge up to the level where they should be. The political defusing and current glut of oil, however, obviously do not signal a return to the status quo ante. Policy-makers are constantly aware that new conflicts in the Middle East could unsheathe the oil weapon again; and the sharp economic rebound toward which the industrialized nations are moving will create a whole new demand scene far less favorable to the consuming nations.

There has consequently been a steady effort by government and business to build defenses against possible future threats to the energy supply. Acting on its own or in bilateral frameworks, Japan has experimented with government-to-government purchase deals for crude, advocated direct Japanese investment and financial support for economic development projects in the Middle East, pressed an export drive, tried to diversify its sources of oil and natural gas, encouraged conservation, and probed alternate energy sources. An energy supply/demand blueprint for the next ten years was put before MITI last August by its influential Energy Advisory Committee and stands as the weightiest indicative look ahead. And in the multilateral context, Japan has drawn visibly closer to its fellow industrial powers in the OECD and has conquered earlier fears of seeming "confrontational" vis-a-vis OPEC, to become an active member of the International Energy Agency.

The government buys oil

The big multinational oil companies headquartered in the United States and western Europe handled over 85% of all Japan's crude imports at the time of the crisis. The reasons this should have been so for a highly industrialized, highly energy dependent economy like Japan's lie in her postwar avoidance of upstream investment in natural resource exploitation as long as heavy U.S. investments had helped make fuels and raw materials so readily available at low prices; and in rather exceptional MITI policies aimed at keeping the domestic petroleum industry fragmented, since oil was seen as too vital to the Japanese development process to allow significant monopolistic elements in its refining or distribution. The Arabian Oil Co., with off-shore concessions in the Gulf, was the only significant Japanese-owned supplier. It, together with five tiny other companies, accounted for less than 10% of the home market.

As the majors moved in October and November to comply with the OAPEC-imposed cutbacks and neither they nor their home capitals could do anything about them, there was a rush by the government to find other sources of crude to make up the shortfall. At various times in the subsequent months there were discussions with Libya about $17 to $20-a-barrel oil, Venezuela suggested $14 as a possible price, and there were a number of tentative feelers with other producers. Since the supply picture corrected itself so soon, however, they led to just one government-to-government (GG) deal in the Middle East, and that was the painfully negotiated deal with Iraq.*

* Any number of small so-called direct deals which do not involve the Japanese government are worked out all the time between companies and Middle East supplying nations of their marketing entities. These are for small amounts and are reached by shopping around among suppliers for marginally better prices. The crude that is sold are the smaller lots left over after the majors have had their lion's shares and do not affect the supply picture very much. The manager of the small American Independent Oil Company in Kuwait made a point in his comments to me of the caution exercised by Japanese purchasers to calibrate their purchases to have them high enough to make them interesting to the sellers -- but low enough to avoid antagonizing the majors.

Initiative for it came principally from MITI and its aggressive minister Yasuhiro Nakasone. He had failed in January 1974, when Sheikh Yamani made his visitation to Tokyo, to persuade him that Saudi Arabia ought to enter a direct deal with Japan and lower the differential between the GG price and that paid by the majors so as to make such a deal feasible. Nakasone did manage, on his trip to Iraq the next month, to bring to the initialling stage a deal calling for the direct government purchase of some 90 million tons of crude oil over the next ten years; and it was another five months, after two breakdowns, that the talks worked out details of economic and technical cooperation arrangements tied to the oil sale commitment. They included the extension of one billion dollars worth of credit from government and private sources for the funding of six major projects, among them two chemical fertilizer plants and a major petrochemical installation.

The deal has not worked out to anyone's satisfaction. Because demand has sunk and the agreed-upon price is higher than that which Japanese purchasers would have to pay to other suppliers, only about half the quantity the Iraqis expected to sell has actually gone to Japan during the first two years the pact has been in force. Mitsubishi finished the fertilizer plant on time but at a loss because of the terms of the deal; and several other projects which the Japanese had expected to get were put up to tender by the Iraqis and went to other bidders.

Credibility in other Arab capitals was a big factor which led MITI to push the lagging deal through to a conclusion and to jawbone consuming companies into going along. Esso Japan's president Yashiro echos a commonly held opinion when he calls it "a bad deal" because of the vulnerability to political pressures which it entailed and because of its intrinsic inflexibility. As spokesman for one of the highly flexible supply buffers which the majors continue to be, this isn't a surprising viewpoint. But government specialists with whom I talked agreed that unless the Middle East producers find a way to bring their GG price below the going one paid the majors--and none of them, including Saudi Arabia, with whom Japan signed a five-year technical cooperation agreement in March 1975, yet shows any readiness to do so--an easing to Japan's oil supply problem does not lie in this direction, at least with Middle East suppliers. China, as noted below, looks like a different case.

Investment in development

Efforts by the Japanese government to create an atmosphere of cooperation and links of common purpose with the oil-producing countries of the Middle East, like the commitment on the six development projects in Iraq, were very much in the forefront of its thinking in the months just after the crisis. These hopes that by offering technology and capital Japan would be able to gain a so-called "goodwill security of supply" and foster among oil producers a feeling of involvement, of having a stake, in a prosperous Japanese economy, have faded in the last two years and do not figure with any prominence in forward planning now. The momentum of 1974 continues, though one gains the impression that the government is not reluctant to see it slow down.

When the Deputy Prime Minister Miki made his eight-country swing in December 1973, he held out as baits for friendship and oil a series of promises for a plant here, a communications system there, a $10 million development loan elsewhere. Minister Nakasone, following him in January of 1974, had many more ideas, among them a billion-dollar joint venture oil refinery project in Iran. This proposal and the other big Japanese involvement in Iran, the big petrochemical complex at Bandar Shahpur, provide good illustrations of the pitfalls awaiting the government in these sorts of projects and the reasons ardor for them has dissipated.

First, a substantial government financing commitment, like that of Japan's EXIM Bank for Bandar Shahpur, can make it hostage to economic factors outside its control. When inflation and the oil price shock pushed the cost estimates for the project from ¥ 290b. to over ¥ 700b. between 1971 and 1974, there was a real danger that the Japanese firms involved would drop it.

MITI found itself in long negotiations with the Iranians to salvage the project. Final agreement on going ahead wasn't reached until January of this year when, among other things, Iranian guarantees for a share of the Japanese loans on the project, by now expected to cost ¥550b. or $1.8b., were finally worked out.

Secondly, there is no evidence yet that as a result of projects like this any points accrue to Japan which are likely to soften supply or price pressures. Iran, the country where Japanese investment has been greatest, remains OPEC's principal hawk on price.

Lastly, direct Japanese government commitments leave Tokyo open to pressures from which private companies, lacking the ballast of broader political aims, can simply walk away. Nakasone's oil refinery idea (which on reflection seemed like a bad one to many because it might create an unwelcome competitive element facing Japanese refiners at some time in the future) encouraged Economics Minister Ansary to tack on a proposal for another new petrochemical facility to use the naphtha generated at the refinery. Price: another billion. It has cost the Japanese considerable ingenuity to keep this unwelcome investment scheme at arm's length for over two years, and it has not gone away yet. When the present MITI minister Komoto was in Tehran this January he felt constrained to agree to yet another feasibility study to start this May.

Especially in a recessionary period the kinds of government investment and risk guarantees that were tried in the Middle East are harder to justify and to fund. Japanese business interests are pressing ahead, as described below, but the time when the Japanese government is ready to take the lead looks to be past. Even in Saudi Arabia, the only other country in the region with whom Japan has concluded a treaty of technical and economic cooperation, emphasis is likely to be much more on coordinating and encouraging the private sector than being in front.

The export drive

The Japanese government, to no one's surprise, has also encouraged the country's exporters of consumer and intermediate goods to strengthen their push to export more to the entire region. The companies have not needed too much encouragement--even without the oil price crunch, the appeal of a growing, newly wealthy market with many appetites for those things in which Japan is most competitive would have been very tempting. Some indices of growth noted in the region: Car sales have tripled* and truck sales quadrupled in two years; in 1975 U.S. exports to Kuwait, long in first place, dropped to second behind Japan; and more than ten major trading and construction companies have established themselves in Riyadh since 1973--the same companies had a single soft-ware representative in Jidda early in the decade.

The impatience to import, in big quantities, what the oil lands cannot yet produce for themselves has brought to Japan very substantial gains in income and share of market. During a visit to the new and exceedingly well-appointed Economic Research Institute for the Middle East in Tokyo, I heard from its vice president Shigeki Koyama how he sees the trends. He noted that exports had quintupled to $3.9b. between 1970 and 1974, only to soar to nearly $6.4b. in 1975. Share of market in the Middle East, always held by the Japanese to be a crucial index, had stood at 5.9% in 1970; by the end of 1974, it had nearly doubled to 10.3%. Most of the increase came in the first year after the oil crisis--82%. Koyama notes a distinct slow-down during 1975 in the rate of rise in imports which he ascribes to the big investments in infrastructure, to inflation, and to lower-than-anticipated oil revenues. At recent rates of increase, he says, Japan would be supplying fully a fifth of all the region's imports within four years. He claims that this is "out of the question" because of the local and third-country resistance,

* One was glad to learn, though, that the world's biggest Buick dealer still holds his rank. The Kuwait distributor sold over 6000 units in 1975.

like that in southeast Asia, which is bound to set in. (Since Japan is already supplying about 15% of Iran's imports, the trend continues upward, and the Japanese share of market in Southeast Asia is in many places at or above 20%, the reason offered for a lower ceiling in the Mid-East does not convince.) In any event, institute predictions are that Japan will hold firmly to 12.5% of all imports into the Middle East by 1980 and this will equal 15% of all Japanese exports in that year.

There were expressions of hope in Tokyo soon after the crisis that the possible damage to Japan's economy if another oil crisis came might be mitigated by such a proliferation of trade ties. It might, so the argument went, encourage a reluctance to see the supply, say, of Toyota spare parts cut short following an oil producers' boycott. Japanese businessmen did not take this idea very seriously; and a senior trade specialist in the State Department recalled that the same argument had been put forward in Washington at an earlier time to prove that Cuba could not possibly go Communist.

The impact of this pattern of export growth clearly involves cash more than anything else. With an oil import bill of $20 billion in 1975, up from $6 billion in 1973, and further hikes likely, export earnings are an urgent need. And, as put by Takashi Hayashi, dean of the Japanese business community in Saudi Arabia, "to make money you have to sell to the people that have it." (Appendix 1 on page 28 shows how successful the Japanese have been at this.)

Trying to diversify

The most obvious way to lessen dependence on Middle East suppliers of oil is to buy it elsewhere. Finding the oil and importing it under Japanese-controlled auspices (or at least having some Japanese leverage in control of it) is one way. Buying from non-OAPEC or even non-OPEC countries--the USSR and China have had the most attention so far--is another. Both have been tried since 1973 and China now looks like the more promising source of partial release from the vulnerability imposed on Japan by its unslaked oil thirst.

In exploration there have been very few bright spots. The Japanese simply started too late. The most productive concessions and fields were already in the hands of others; and the expenditure of more than $4 billion since the 1950's on exploratory efforts by 60-odd smaller companies has brought in precious little.

Despite the disappointments there are Japanese exploration projects going on in all parts of the world, from the Japanese continental shelf to the tar sands in Alberta and the mouth of the Congo.

As late as February 1976 the thorough Japanese were making one more exhaustive survey of every possible source for exploration in the Middle East. IEA recently received a group of five, as I was told, who had completed a weeks-long visit to "every hill in the area" which might contain petroleum deposits. The Institute for Energy Economics, Japanese Cooperative Center for the Middle East, and the major industrial firms Mitsui and Chiyoda, had teamed together to send senior specialists to make sure nothing had been missed.

The government-funded Japanese Petroleum Development Corporation has increased its rate of guarantees of investment for exploration. The companies searching for oil are, in many cases, quite small ad hoc enterprises and could not assume the full risk of exploration costs on their own. In spring of this year JPDC overseas guarantees reached $808m. The increased investment has made this difference: Japanese-developed imports of crude oil in JFY 1973 ending March 31, 1974, made up about 21 million metric tons of the 250m. tons imported during that year, some 8% of the total. Since then the percentage has inched up to about 10%, with much of the increase coming from liftings by the Japanese-owned Arabian Oil Co. which were made on Saudi and Kuwaiti sufferance from the company's concession fields on and in the Gulf. (Appendix 2 traces the trends in sources of imported crude oil by country of origin since 1973.)

The feeling has been growing in Japan that the country really ought to be able to do better, since so much else of what the Japanese economy undertakes has a way of working. There have been only seven oil strikes since 1973 by Japanese explorers, according to one count, and during this period the percentage of Arab oil in Japan's import total rose from 44.7% to a surprising 56.7%. Couldn't a single, big, efficient exploration company make a dent in this dependence?

The main proposal for such a change came in mid-1975 from the president of the JPDC Shimada. He foresees a single coordinating company in place of the small single-project companies whose financial base is so shaky. JPDC would put up 75% of operating funds and assume responsibility for all new exploration and production. The crude would be sold to the Japanese-owned national refineries; and the coordinating function would be the launching move toward the creation of one or more integrated Japanese majors (there are still none). The resistance to these ideas is strong from the trading firms and the small companies' directors who see their influence, if not their jobs, disappearing. The issue is tightly bound up, too, with the thorny question of domestic reorganization of the industry. There is money in the new budget for preliminary reorganizational steps but no early movement is expected, lacking the outside pressures to act quickly and the pattern of vested interest.

As far as the notion of buying into concessions already in operation, this was tried early in 1973 when private Japanese investors sank $780 million into the purchase of rights to a field in Abu Dhabi which had been developed by European oil interests. For the amounts derived and the obstacles raised in the form of rising equity control, increased taxes and royalties, and resultant serious current deficits, it doesn't seem to have been worth it. This same approach has not been tried a second time.

The USSR and China

The energy resources, real and potential, of Japan's two giant neighbors on the Asian mainland have naturally had a lot of attention since the crisis. Prime Minister Tanaka, for example, called for stepped-up negotiations for Soviet natural gas from the Tyumen fields within days of the announced production cutbacks by OAPEC in fall of 1973. This project and a similar one in Yakutia, closer to Japan, have now been exhaustively explored. And the recent leadership of the Petroleum Planning Division of MITI's Energy Agency has strongly advocated further development of the Chinese connection, as have many Japanese industrial firms.

The Soviet outlook is quite unpromising at this writing. The Tyumen project, after an extended death agony, has finally expired. It had been a scheme for Japanese and American interests to come in together with financing and know-how to help bring on stream the vast natural gas deposits in western Siberia. Both would have guaranteed minimum supplies from the field. Tyumen foundered on Soviet insistence that the Japanese also contribute to the politically unacceptable construction of a rail line along China's northern border, as well as American holding back.

Negotiations for a joint U.S.-Japanese-Soviet project to confirm natural gas reserves in Yakutia, north of Mongolia, were completed on March 30. American and Japanese investment will be $25 million each, with the U.S. contribution coming from a bank consortium. If the estimates of reserves exceeding one trillion cubic meters of natural gas are confirmed, credits in the three to four billion dollar range would be required to exploit them. The ban on EXIM bank loans to the USSR would place an onerous financial burden on the Japanese, if they decided to go forward, and the gas would not flow into the Japanese grid until well into the 1980's.

No one expects that imports of Soviet crude oil will amount to much. There has been no talk of imports from fields in the western part of the country. An exploration project off Sakhalin Island was worked out last fall by Moscow and Tokyo and Gulf Oil but its scale and prospects are not very significant.

The idea that China can develop into a supplier of significant amounts of crude is one which is steadily gaining currency, especially at MITI. From a level of one million tons in 1973, Chinese exports to Japan went up to 7.8 million last year. Though this was less than 4% of all imports, Chinese production continues to rise and the natural expectation, for reasons of geography, complementarity, and mutual political benefit, is that the Japanese will be buying more and more of it. Two purposes are at play here: diversification of crude supply is one; the other is the lop-sided trade balance between Japan and China, heavily in the former's favor, and the Japanese government's desire to make it easier for the Chinese to keep on purchasing by having Japan import more. The only product in which there is real interest in Japan is crude oil, hence MITI's preoccupation with the Chinese connection.

Just how big Chinese reserves are is a matter of some debate. Production has increased ten-fold over the last decade and it stands now at about 80m. tons a year. The Chinese have pressed the Japanese hard to buy more and to agree to a five-year deal committing them to increase imports each year. Newer fields at Ta-ching are producing crude with less wax content than the current main sources and there are substantial proven reserves in shallow Pohai Bay near Tientsin for which Japanese construction firms are eager to build submarine pipelines.

Other specialists maintain that the high costs of bringing new Chinese crude sources on stream, as well as major transport obstacles, work against the optimism one hears from some sources in Tokyo. (It runs as high as predictions of 3 to 4 million barrels a day by 1985, a hardly believable one-third of projected needs by that year.) Two members of the Soviet trade mission in Tokyo were at special pains in March of this year to convince an American Embassy officer that the Chinese could not be expected to produce much oil at all, now or in the future. "We ought to know," they added, "because Soviet scientists made the original explorations and we still have all the maps." This claim, not a wholly dispassionate one, can be discounted in view of the upward trend in production and proven Chinese ability to do their own exploration in the 15 or so years since Soviet oil geologists were invited to go home.

A steady, if not spectacular, rise in availability to Japan of Chinese crude seems a fair expectation. Lower demand in Japan led to a drop from 7.8m. tons purchased last year to the 6.1m. tons which the two Japanese purchasing "windows" are committed to buying in 1976. Japanese industry estimates are that an annual purchase of 15m. tons from China is the most that could be managed by the end of the decade, in view of the special refining facilities needed to handle it and assuming no increase in those facilities. For China to grow to a major supplier for Japan, a lot would have to happen: Japan would have to agree to substantial longer-range buying levels to assure the Chinese of the income they would need to raise production dramatically; and to handle the waxy Chinese oil the Japanese would have to invest a great deal more in hydrocracking refinery capability, a costly business which can raise costs by as much as 10%.

K. Ohuchi, Esso's managing director for Japan, described to me the enthusiastic evangelism for expanded crude buying from China which was displayed in early March by MITI main oil planner Shuji Ozu in a talk to the Petroleum Association of Japan. As reasons for a sharp rise in Chinese imports, Ozu pointed to the continuing instability of the Middle East, rising U.S. imports of crude from the area, and the heavy congestion of tankers passing through the needle-eye Straits of Molucca en route to Japan from the Middle East. Ozu's vision of as much as 50m. tons yearly of Chinese crude flowing across the Sea of Japan as an "absorbable" amount failed to generate much positive response from his audience, however. The cost figures in a time of recession are one reason. Another is the political danger seen by many of substantial reliance on the Chinese supply. In light of the danger of political upheaval on the mainland and the leverage the Chinese might gain if their exports to Japan became a sizeable component of the country's imports, interest does not appear strong for a really significant increase in imports from China--despite MITI's expressed confidence in its ability to guide industry through the shoals of high costs and political pressure. Thus, the stable long-term growth in Japan-China oil trade which Embassy Tokyo predicts seems likelier than a sudden spurt.

Conservation

There is much less room in the Japanese economy to conserve oil in ways the United States can--or theoretically could. Where the American economy only consumes some 15% of the oil it uses in the industrial sector, the Japanese figure was 46.2% at the time of the oil crisis. American consumption for transportation was over 50% at the time, while Japanese drivers were using only a fifth of the country's available petroleum on the highways.

Making industry more efficient in its use of energy has thus to be the Japanese way, rather than cutting the use of gasoline in cars or lowering use of oil products by the general public. After the crisis there was only a perfunctory try at lowering general use of oil--things like turning off two of the six elevators in the Mainichi building for several weeks and urging drivers to stay home on weekends. In late 1973 and early 1974, the main thrust was to get industry to use less oil and a comprehensive conservation program was put together in spring of the latter year. There was by then no particular shortage of supply, though, and the program was almost completely voluntary. It aimed at reducing projected oil consumption by 3% during the succeeding two years; and use of oil was indeed down significantly by March 1976. This cut, however, was due almost wholly to the recession and keeping the rate of consumption increase down when the economy rises will be much more of a challenge.

Moving energy-intensive industries abroad has been the second main conservation thrust and a good deal of planning has gone into it. A number of projects, like the aluminum and steel plants in Brazil, are going forward and will have the desired effect of exporting energy requirements and pollution, too. These and similar activities outside the country have a helpful public relations impact as well, but they take a long time to realize.

The projected rationalization of the oil industry is also seen as a contributor to using oil more economically but it too is far easier to plan than to realize and, as noted elsewhere, seems a long way from fruition. In any short to medium term compass, conservation measures like these three hold out only marginal promise--though the projected hope for the 1985 energy plan sees conservation savings of the equivalent of 70 million kiloliters yearly (i.e., 60 million tons or some 1.1 million barrels a day) a decade from now, a lofty goal to aim for from conservations low plateau today.

Other energy sources

Just as conservation is a long-range hope, the plans and projections for alternate sources of energy will not have a significant impact in the short run. MITI's forecast of the energy picture in 1985 (page 17), the most authoritative forward look to date, sees the share of imported oil in the whole energy picture as declining from 77.4 to 63.3%--even as it rises in absolute terms to 485 million kiloliters, some 8.3 million barrels a day. Of the alternatives, only LNG and nuclear power are projected to go up to a degree that will really matter--domestic coal production is even expected to decline. LNG's share is optimistically predicted to increase 17-fold, from 2.4 to 42 million tons (.8% to 7.9% of all energy use). Nuclear power is thought to have the potential of 21-fold growth, up to 49 million kilowatts a year, thus satisfying 9.6% of total energy needs a decade hence.

The LNG target is probably attainable if the Yakutsk fields can be brought on stream, and this "if" is a big one, but the question of developing infrastructure to absorb it raises a number of doubts. As for nuclear power, even the 49 million kw figure, down from earlier estimates of 60 mkw, looks like no easy feat. In addition to widespread visceral resistance in Japan to the idea of nuclear power and the big obstacles to finding land for construction, the performance of these commercial reactors already in operation has been a surprising disappointment. In 1975 Japanese plants taken together operated at a mere 33% of capacity compared with a 59% average in other non-Communist countries. Two of the country's 10 plants were down the entire year; and one new plant produced more in the last six weeks of the year than all the others combined throughout the year. With two new plants capacity is now 6.6 kw, might reach 7.5m. kw by the end of 1976, and would thus have tripled in three years. Capacity is not output, though, and the idea of a further seven-fold increase by 1985, even in capacity, makes a number of observers of the energy scene in Tokyo quite skeptical.

MITI's Energy Demand and Supply Projection for 1985

	Fiscal 1973 (actual)			Fiscal 1985 (forecast)		
	Quantity (a)	Heat value (b)	% share	Quantity (a)	Heat value (b)	% share
DEMAND						
If unrestrained	--	383	--	830	784	--
After saving	--	--	--	--	710	--
Crude-oil equivalent	410	--	--	760	--	--
SUPPLY						
Indigenous:						
Hydropower	22.6	18.	4.6	42.4	26.	3.7
Geothermal	0.03	0.06	0.0	2.1	3.6	0.5
Oil and gas	3.7	3.5	0.9	14.	13.3	1.9
Coal	21.7	15.	3.8	20.	13.3	1.9
Sub-total (c)		36.5	9.5		57	8.0
Nuclear power	2.3	2.4	0.6	49	68	9.6
Imported:						
LNG	2.4	3.2	0.8	42	56	7.9
Coal	58	45	11.7	102.4	80	11.2
Oil	318	296	77.4	485	449	63.3
Sub-total		344.2	89.9		585	82.4
Total		383.6	100.0		710	100.0

a) Units of quantity as follows: Hydro, geothermal, and nuclear power in million kw; oil and gas in million kiloliters of crude-oil equivalent; LNG and coal in million tons.

b) Units of 10^{13} Kcal.

c) Including other sources (charcoal, firewood, lignite, etc.)

N. B. Since the heat value is given, according to Japanese usage, in millions of kiloliters of crude-oil equivalent, some small calculations are needful if the reader wishes to compare these figures with others cited in metric tons or barrels of oil--kiloliters multiplied by .86 produces metric tons; and 6.29 x kiloliters gives the equivalent in barrels.

The energy blueprint

The picture of Japan's energy needs and supplies in 1985 which emerges from this forecast reflects the deep downgrading of growth expectations in the wake of the oil crisis and the price rise. In 1970 the anticipated 1985 requirements in that super-measure of heat equivalency, 10 trillions of kilocalories, was over 1000. It fell in 1974's prediction to the 800-average range. Now it is 710.

The report from which the accompanying chart is drawn foresees little scope for Japan to increase the security of its petroleum supply except through cultivating cordial relations with both producers and the majors. The most striking feature of the entire report, our Embassy felt, was just how little is expected to change over the next 9-10 years. Japan will still be overwhelmingly dependent on imported energy (82%), petroleum will still supply the bulk of it (64%), and the majors will still be delivering most of the oil to Japan. The push to diversify will go forward, but the plan projects no illusions that a radical shift is in the making.

There is instead stress on the consumption side, since that is where national policy can make the most difference. By rationalizing industrial processes and using new technologies wisely, the committee thinks Japan will use 6.4% less energy in 1980 than it would have it there were no conservation; and that the saving would reach 9.4% by 1985. Such a saving would account for the drop in crude-oil equivalent from 830 to 760 in the chart. It would all add up to a low 5.3% growth in total energy demand during the 12-year span 1973-1985, less than half of the 12% which obtained during the preceding decade.

This approach relies heavily on conservation, an area where performance to date has not been impressive. In energy R&D, the Japanese are spending rather less than their wealth and need imply that they ought to, waiting perhaps to take advantage of what is done in the U.S. and Europe. In any event, the effectiveness of the conservation techniques upon which so much is seen to depend cannot really be fairly judged until the Japanese economy finds its way back out of the recession.

IEA's Standing Group on Long-Term Cooperation analyzed the integrated energy plan in fall of 1975. It found the plan to be "realistic, flexible, and...a major effort to reduce dependence on imported oil." This said, the report points out that massive capital expenditures are involved and the government has to think fast about where it is coming from; and that although the percentage share of oil in total primary energy requirements will shrink, oil requirements will continue to grow. In fact, Japan's share of total world oil trade will remain more or less the same. These recommendations were therefore made: that there be more inter-fuel substitution; that efforts be made to boost domestic coal production; that public resistance to nuclear energy usage be countered with intensive public education programs; and that conservation be intensified.

A current status report on the plan is not available, but MITI's Hosokawa assured me that a review of the energy scene in December 1975 by the ministry had resulted in a substantial reaffirmation of the August blueprint as the right direction for the country and that this is the way it is going.

With other consumers in IEA

The Japanese position within the International Energy Agency has been officially defined as "the establishment of cooperation between producers and consumers on the basis of unity among the consuming countries." Conversations with those who have seen the Japanese in action at the IEA in Paris indicate that they have held to this position consistently and that their readiness to cooperate closely with other members has been on a steadily rising curve since the Washington Energy Conference in spring of 1974.

IEA Director Ulf Lantzke, just returned to Paris from several weeks in Japan, had strong words of praise for the constructive role the Japanese have come to play in the organization. He noted their tactical reluctance to let themselves get isolated from the mainstream of opinion on the Governing Board, even at interim points in the development of policy, but said he could well understand the reasons for this. He had found that this business and government interlocutors in Tokyo were far more outward-looking than they had been in 1974, more concerned with adapting approaches to the community of industrialized nations.

The government must of course continue to demonstrate to the Diet the balance of its position vis-a-vis other consumers, and the producers and Lantzke found that the CIEC forums were already making this easier to do. A significant shift he had noted in Tokyo, he said, was the heightened influence in MITI of those who support consumer cooperation within the IEA, and a corresponding weakening of those who see "national Japanese solutions" (like former Minister Nakasone) as the country's best bet.

MITI's own man at the IEA, Tatsu Sunami, agreed with the view that his ministry had indeed moved from its earlier skeptical attitude toward consumer cooperation. Sunami had made the Mid-East trip with Nakasone in early 1974 and was the action officer on the disappointing participation deal with Abu Dhabi, so that his opinion should be a well-based one. He viewed the recent Japanese acceptance of the $7 minimum safeguard price for imported oil as a crucially important decision, one that was reached with the greatest difficulty.

Stephen Bosworth, Office Director for Fuels and Energy in the State Department and co-chairman of the energy commission of CIEC, notes that the Japanese negotiators on MSP saw it as among the potentially most "confrontational" moves the Japanese could have taken, one which was indeed exceedingly hard for them to decide upon. Two economic factors moved them to accede: no tangible economic loss would be likely because a drop in the price of oil is such a minuscule possibility; and if one did occur the differential between old price and new would go to the government. Political reasons, evident to all, would be tougher to surmount; and it was only the conviction (and patience in forging a consensus) of senior civil servants like Miyazaki and Yoshino at the Foreign Office and Minister Komoto and Director General Masuda at MITI, that ultimately carried it off.

Another difficult action is behind the Japanese now that the Diet has passed legislation requiring that the nation's crude oil stockpiling capacity be raised from 60 days to 90 by the end of the decade, also an important IEA goal. OAPEC's bulletin for March 1976 asked pointedly if this and similar moves by other IEA members wasn't "confrontational." Why not leave the oil in its natural habitat? The Japanese, presumably, would have a short answer to that: "October 1973." And have evidently decided that they can stand any criticism the move provokes.

In Tokyo, Sunami's successor once removed as Deputy Director of the planning division in the Energy Agency of MITI, Hisashi Hosokawa, had said that the strengthening of ties with the U.S. and western Europe was the most important action Japan could now take. "Let's not try to imitate the more experienced actors in the area," he added. He thought that MITI had come a long way in reorienting its thinking away from bilateral approaches and held it significant in this connection that IEA has no regional divisions. In the same breath, though, Hosokawa said the best thing Japan could do in the short run to assure its oil supply was to make relations with Iran and Saudi Arabia just as good as they could be; and he added that IEA should be at pains always to study with utmost care "just what it is that OPEC" wants. His remarks pointed up clearly the careful middle-line treading act which the Japanese must perform between producers and fellow-consumers.

IEA Division Chief Immo Stabreit praises the "realism" of the Japanese in IEA debates which have brought them much closer to the pragmatic Germans and French than the

Swedish and Dutch "ideologues." He likewise puts a distance between the Japanese and the "Machiavellians," those within the organization who see it only as a time-buyer until OPEC sunders.

Japan's position within the IEA has always taken form in closest coordination with the United States, according to the secretary to the U.S. OECD mission. Thomas Hubbard, who was directly involved in the discussions, recalls that the planning which preceded Japanese participation in the energy conference in 1974 and entry into IEA took place between the Department of State and the Embassy in Washington--and that the action office in Tokyo was the American desk of the Foreign Ministry. (The July 1974 U.S.-Japan bilateral agreement on energy R&D cooperation was a further reflection of this special relationship.) In OECD and IEA Japan's delegations aim for careful bilateral coordination with the U.S. and are usually quite reluctant to take initiatives. Their perception of the events of 1973, Hubbard recalls, had initially been that they were being hurt because of their proximity to the United States and that we couldn't do anything about it. The course upon which Japan decided, viz., to tilt toward the Arabs and stay as close to us as possible while riding out the crisis, seems to him (and to others involved in the events of late 1973 and early 1974) to have been the right one.

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IV. JAPANESE AND ARABS

In Tokyo there is acute and readily articulated worry about Japanese inadequacies in dealing with the countries and peoples of the Middle East. Some illustrative quotes:

-- "We Japanese will need four to five hundred years to develop the same mutual understanding the westerners and Arabs already have achieved."

Soichi Tsuge, Senior Coordinator, Arabian Oil Co.

-- "There is much Arabophobia in Japan. They are such emotional and unpredictable people we don't know what they will do next."

Masuhiro Sasagawa, Middle East Editor, Asahi Shimbun

-- "To deal with oil-producing countries... we need profound understanding about tribal relations, personal relations (including uterine and non-uterine kinship), and the traits of nomads."

Kunio Katakura, senior official, Economic Affairs Bureau, Foreign Ministry

-- "The Arab lands are a very far country in the understanding of the Japanese common people."

Toshio Oshima, Deputy Chief of Cultural Affairs, Foreign Ministry

There was a striking pervasiveness of these sorts of attitudes in Tokyo. Hardly anyone was willing to cite much at all that the Japanese had going for them in this area of vital national interest. The putting down of self was based principally on the language barrier, weak area knowledge, profound cultural differences, the Japanese' late arrival in the area, and the Arabs' lack of understanding of them and their ways. Some of this may be habitual modesty; or the desire to disarm an official American visitor. In any event, one finds in the Japanese capital a rich proliferation of well-funded new organizations and institutes which focus on the area. Among them, and citing just a few, are the Middle East Situation Research Council, the Middle East Cooperation Center, the Economic Research Institute for the Middle East, and the Middle East Research Council. The same illustrious names from government and business life recur on the directorates of these institutes and the others like them.

The need for such intense attention to the area was generally borne out by encounters and observations in Saudi Arabia and Kuwait. Only two of the dozen-odd Japanese interviewed know Arabic, there is a rushed newness about Japanese business installations, and a crowded overworked feel in official offices. Much criticism about the way the Japanese conduct themselves was voiced, especially by Americans. It did not always sound disinterested. The word "devious" was dropped rather often and traditional charges of collusion between business and government were leveled. On balance, though, there seemed to be rather more working for the Japanese than one expected. And their achievements to date in this "new territory" lend hollowness to the protestations of new-boy innocence.

The senior Japanese resident in Saudi Arabia is Takashi Hayashi, Arabian Oil's manager in Riyadh for the last 11 years. His Arabic is completely fluent and his contacts in the top echelons of the government are unique among Japanese, strengthened as they have been by his role as introducer and interpreter for all the cabinet-level Tokyo visitors and top-level industrialists since 1973. In his status of unofficial Ambassador--all diplomatic personnel are still based in Jidda and visit the "real" capital far too seldom for their own good, Hayashi thinks--he has been encouraged by the way Japan "has opened its heart and mind" to the Middle East since the crisis. They are learning quickly about the Saudis' suspicion of all foreigners and are countering it by keeping the level of their performance high. Hayashi suggests that most Japanese don't really like the ascetic life in the dry and strait-laced kingdom. He says he has urged other companies to send wives and families with their representatives, but notes too that without the diversion of family life or even bathtub sake, many Japanese engaged in projects in Saudi Arabia tend to work faster and more efficiently so as to get the job done and leave. Greatest element of all for success, he asserts, is a reputation built over many years. His company, AOC, has it largely because it has been present and built up knowledge and contacts over time. As other companies move in and begin performing, they will succeed too.

Some American views

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Long-time American residents of the peninsula see the state of the Japanese-Arab relationship rather differently. [redacted] has 30 or so years in Dhahran behind him and a strong sense of identification with his hosts. He notes that the Japanese ways are still very strange to the Saudis, the comings of their negotiators en masse disconcert, and their irritating thoroughness and attention to detail prove rather trying. [redacted] are tired of the visits of Japanese who come armed with endless lists of broad-gauge "philosophical" questions for them; [redacted] says he plans to start charging his frequent visitor from Sumitomo a consultation fee. Both agree that the Japanese have the Saudis' respect, but not their trust. They buy their cars but the Japanese' technological competence in the big projects (like those Aramco has undertaken for half a century) is questioned by the Saudis, especially in view of the shortcomings of a refinery they put up in Riyadh. *

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In Kuwait, [redacted] had strong praise for the reliability of the Japanese in business dealings. His company sells to Mitsubishi, Nippon Mining, and other major buyers and their loyalty during recent times when they might have shopped around for better prices has made [redacted] grateful. [redacted] quotes Arab friends, however, as saying that they simply do not like doing business with the Japanese--yet. They will take a lot of getting used to because they are so different from the British and the Americans whose presence has had so large an impact on Kuwait's development. The Japanese' ultra-conciliatory attitudes, close to the point of fawning, is seen in sharp contrast to the assertiveness of Britons and Americans.

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* Several knowledgeable Americans and Saudis, whom I queried in Riyadh, could not confirm that this criticism was valid. [redacted] tended to be rather hard on all the Asian newcomers crowding into what was formerly their own quasi-fiefdom in the Eastern Province. The thousands of Koreans and Filipinos expected to work at Jubail upset them and, they say, the Saudis as well. [redacted] the latter are reconciled to the presence of Christians in the kingdom. "They," he says, "are at least people of the book. But what the s--- is Shintoism?"

Other resident Americans fault the Japanese for trying too hard. Our Commercial Attache in Jidda recalls their going into a minor trade fair in violation of agreement among western commercial attaches that the fair would be passed over by all. sees much distrust of the Japanese by the Saudis, in contrast to their more positive attitudes toward the Koreans, who are less "intense." The American Charge in Kuwait saw little evidence that the Japanese are being very efficient at winning Kuwaitis to their side. (b)(1) (a)(9)

Arab views of the Japanese tend to be expressed guardedly to the third-country visitor. The American-educated was the only one who spoke out specifically to give substance to the widely heard "distrust" comment. He had seen the claim in a recently published book (by Para and Simon, as heard) that Japanese firms maintained an artificial differential of 10% or more between wholesale and export price indices, where only a 2% gap would be acceptable. Having personally confirmed the charge by his researches into current statistics, Bashir wonders aloud if this isn't a form of revanchisme for the shock of 1973.* In another area he faults the Japanese for being "the most cautious people you can find." They spend far too long computing profitability, he claims, and should come to their decisions much more rapidly. (b)(1) (a)(9)

As if to underline the divergent perceptions which seem to mark the early stages of a transnational relationship, praises the Japanese for coming to meetings fully prepared to reach a decision. American and European firms have to check back repeatedly with their home offices, but the Japanese know what they want and come in managerial depth--to be able to say yes or no authoritatively. Perhaps are talking about Japanese before and after the ringi consensus-reaching process has run its course. (b)(1) (a) (b)(1)(a)

Tea and sympathy

finds as a Japanese that the pace of social intercourse with Arabs is quite congenial. Neither is rushed and the tea-drinking lubrication of personal contacts which both practice is more than just a habit, but serves important confidence-enhancing goals. Also in Kuwait, has high praise for the flexibility and responsiveness which the Japanese have shown in their dealings there. "They have tenacity and resilience, and are ready to work as partners, not try to impose their views the way Americans do. There's nothing 'devious' about this--it's just plain horse sense!" likewise saw a plus for the Japanese in their sensitivity to the dynamics of human situations, their speedy understanding of unstated quid pro quo for which the Arabs are themselves unfailingly alert. And the Kuwaitis like doing business with them, he concluded.** (b)(1) (a)(9) (b)(1) (a)(9) (b)(1) (a)(9)

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* The Saudis are not the only ones affected by this policy and should probably not feel unfairly treated. State Department specialists confirm the existence of such a two-tiered system and note that certain raw steel prices are regularly held lower than export prices. It makes the Japanese so competitive that they can export nuts and bolts at prices below the cost to American exporters of importing the steel to fabricate them in the U.S. The practice causes concern to the USG and to manufacturers, but it is not illegal and there seems to be little room for retaliation.

** American citizen with an extremely profitable business in Kuwait. His emotional and sharply stated opinions on the obstacles confronting American business efforts in the Arab world (SEC regulations, boycott-related cases) as well as his dislike of grandstanding American business practices in the area, seemed to color the high marks he conferred by contrast on the Japanese. (b)(1) (a)(9) (b)(1) (a)(9)

Another man who says he is most sensitive to human dynamics is [ ]. He has watched the community grow from some 200 in 1975 (mostly AOC families on the Kuwaiti side of the two-nation concession) to over 500 today.* There is already a Japanese school through ninth grade in Kuwait and [ ] is very preoccupied that the mistakes of arrogance and particularism which marred Japan's relations with Southeast Asian markets not repeat themselves in Kuwait. "Such stories are very shameful to me," he declares. He offers no specifics about how to prevent walls rising between resident Japanese and the host nation, other than the providing of high quality goods and services at reasonable prices. For the time being, that may be enough.

(b)(1) (a)(9)

[ ] had these bouquets for his boss (who was present during the encounter): Arabs value highly Japanese politeness to employees at all levels of the company; they have great confidence in their superiors; employees who are family men are grateful that they enjoy job security; and the relationship to Japanese is not colored by either colonial memories or political overtones.

Lacking a first-hand feel for the Japanese presence in Iran, since travel there proved unfeasible, I would only note that growing pains for the community there, now at around 3000 and up from 1000 a few years ago, are seen in Tokyo as fairly acute. From Japanese interlocutors one heard numerous comments critical of the Iranians' attitude toward them--the adjective "haughty" came up in four conversations in this context. What other factors are at play--presumably the growth of large inward-oriented Japanese communities is one of them--could only be gauged on the spot.

One key individual in Tehran, who has a special relationship to Japan, was mentioned rather resentfully by several people in Tokyo. [

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Doing business

On the Japanese side of the economic relationship, several problem areas were revealed during the course of conversations in Riyadh and Kuwait. Most of them are in the kingdom--Kuwait's infrastructure is largely in place, port delays are much briefer, financial dealings are straightforward, and commercial relations generally proceed smoothly, for the Japanese as well as other major trading partners.

In Saudi Arabia, export sales have surged upward at a headlong rate. Importers complain about the delays of up to four and five months in offloading at Jidda and Dammam but have adjusted somehow. The export increases scored have been principally in steel, communications equipment, television sets, radios, trucks, and tires.

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* Comparable figures further down the Gulf: some 100 Japanese in Qatar, over 200 in the United Arab Emirates.

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The situation as concerns the major multi-million dollar development projects, however, has been far from rosy. Although Japanese firms are now involved in more than a dozen major government projects, inflationary cost rises at home have made them less competitive; and the foreign exchange shrinkage has pinched. The Japanese had never been much involved in industrialization projects in the region prior to the oil crisis--the Jidda refinery built in 1966 by Chiyoda was one of just a handful of such undertakings. They have wanted to get a piece of the larger action in what Morgan Guarantee, which has forecast OPEC purchases of goods and services at a rate exceeding $200b. by 1980, calls "the greatest market of the century." (Whether these sorts of predictions will stand up, in view of critical labor shortages and small domestic markets in most Arab countries, is questioned by many Japanese observers.)

A considerable obstacle for the Japanese companies is the limited availability of credit guarantees from the Japanese Export-Import Bank. The bank does not extend the credit in full (which even the wealthiest oil-producers demand) for contracts of one billion yen ($330m.) or higher. MITI is weighing a rescue operations here. It would involve raising the limit and/or permitting the setting up of a loss compensation reserve fund. The latter would make it easier for the Japanese to compete against bidders from western European countries whose governments are often ready to guarantee fully the credits demanded. The fund would allow the big company bidders to put aside 20% of the total amount of the contract as a tax-exempt loss reserve. This new fiscal year should see action here, it's anticipated.

The Saudis' insistence that big projects be joint ventures with their own companies generates great frustration among the Japanese business community. The young Riyadh representative of one of the major trading companies spoke bitterly about Saudi government insistence that his company enter a joint venture road-building project with a specifically named Saudi company. waved at me a half-page of general comments about the "good reputation" of Saleh and Abdul-aziz Abahussain and Co. in Al-Khobar. "This is all Dun and Bradstreet can tell us about a firm we're supposed to work with on a project that costs millions," he complained.* This paucity of hard economic information is still typical of most Saudi firms. a senior steel pipe and tube executive from the Tokyo office who was visiting Riyadh during my stop there. He resents the diplomatic pressure applied by the Japanese government to accommodate the Saudis' needs, he said, and "hates" joint ventures because the local ways of doing business are so different (and, by clear implication, inferior) to the Japanese'.

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(b)(1) (b)(3)

(b)(1) (b)(3)

Lastly, costs often go up faster than projects can be carried through. The Saudi Arabian government does not accept escalator clauses in its contracts and performance delays due to delivery bottlenecks can drive prices up very fast. The massive petrochemical project at Jubail on the Gulf, for example, on which Mitsubishi was awarded a contract some time ago, now will cost several hundred million dollars more than expected originally. One heard conjecture that the company might back out of the contract to cut its losses. The business community hopes that the new Japan-Saudi Economic Commission, now being formed under Tsuneo Tanaka of MITI in Riyadh, will function principally as a trade commission and have enough clout to influence Saudi policy on all these issues, as well as the complex and costly bonding procedure tied to government contracts. No one seemed too confident that it will. Unlike the American Commission, whose opposite number is the Ministry of Finance, the Japanese will be dealing with the Ministry of Planning which wields a good deal less influence.

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V. THE OUTLOOK

On the basis of encounters in the capitals of the two principal Arab oil suppliers, one cannot be too pessimistic about the Japanese prospects for workable modi vivendi et operandi with them. They communicate despite the language barrier, because the Japanese have a lot to offer which the Arabs want. In the phrase of Hume Horan, the DCM in Jidda, they are filling the cultural interstices of the society. Their area knowledge is growing fast, spurred by their disciplined and exhaustive researches. An example was who repeatedly expressed to me his happiness at being on the spot "so I can study everything." The cultural differences are admittedly great, but there seem to be no really insuperable barriers and there are some unexpected similarities. Late arrival in the area is not an unalloyed minus; and the Arabs, who are learning to value the link from their end because of Japan's commanding dimensions as a market, are also beginning to understand the Japanese and their ways. The real optimists in Tokyo even opine that the interest equation is about equal now, i.e., that Japan's need for Middle East crude oil is just about balanced out by the Middle East's need for Japan as a market.

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This extreme view is hard to share. In spite of all the way the Japanese have come toward strengthening their ties with other consumers, the numbers still demonstrate how vulnerable and dependent Japan remains. Whatever successes the country scores in realizing the 1985 energy blueprint, that careful line with hands out to other consumers and to the producers, will remain the one it must tread. Cooperation with other consumers, principally with the U.S., gives Japan the best chance to avoid being again reduced to dogeza-gaiko--kow-tow diplomacy. The Japanese have become internationalists by necessity.

During the recession touched off by the oil crisis, some things seemed to proceed as always. Exports rose steadily in 1974 and 1975; and by the end of the first of those years, currency reserves had been built back up to $14b. almost in defiance of the soaring oil prices. Japan was the first OECD member to "pass through" the oil price rise by exporting more. Some observers say this was achieved above all at the expense of the LDCs--and it is a fact that Japan's terms of trade with non-oil producing countries have improved dramatically since the crisis. This was a point Japanese economists did not stress.*

Such signs of vigor and resourcefulness abound. The Japanese deliver good products, on schedule, and they provide outstanding servicing. They plan their business moves with special thoroughness and seldom err. These are factors that have made the recovery from the crisis possible, but all the longer-range observers, Japanese and American, with whom I spoke agree that the former high growth rate can never return. Deputy Prime Minister Takeo Fukuda, who heads the Economic Planning Agency, said in an interview last year that "It is not going to be possible for Japan to continue to grow faster than the rest of the industrial world."

Headlong expansion has come up against real barriers as Japan achieved the status of a mature industrial power. In the minds of many, the oiru shokku served as a catalyst for insistent environmental concerns, a reappraisal of labor's traditional rhythm of wage demands, and reexamination of untrammeled industrial growth at the cost of neglected social needs in the society. Reduced rate of growth forecasts for the years ahead now hover about the 5% mark.

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* Business entertainment, an odd Japanese rite of excess, suffered hardly at all due to the recession. In 1974, after a slow start, the costs of food and drink chits picked up by the companies soared 17% over 1973, to $6.4b., a total some 75% above the defense budget for the same year. Perhaps a consolation factor was involved, during that year of negative growth.

It is in the U.S. interest for such a decrescendo to come about with the minimum of dislocations, just as it has been very evidently in our interest for the Japanese to have joined the consumers' club so loyally. An expanded Japanese commercial presence in the Middle East, as initially painful as it appears to be to many of the Americans in the region, looks to be a valid and natural component of Japan's efforts to improve its relations across the board with the major producers. The resentments and sour grapes (or sour ball-bearings) encountered among Americans in the area seemed a narrow reaction and one which should pass. It also has to be hoped that the Japanese have really learned well the lessons of their problems of abrasive presence in other parts of the world and that the kind of clashes which hit the Japanese in Southeast Asia and so shamed [redacted] will not occur in Kuwait or Baghdad some years hence. (b)(1) (a)(9)

American-Japanese consultation on Mid-East issues ought probably not to be confined to IEA-related matters, because they are important beyond just that forum. The Middle East consultations which took place in Washington in April of 1975 between American and Japanese officials were a promising initiative. As they continue--the next session takes place later this year--a wider range of issues might well be covered, including many economic and commercial issues.

In discussing Japan's November 1973 pro-Arab tilt with me, Kiichi Saeki, President of the Nomura Research Institute, said with some passion, "We have a right to exist, after all... So you must understand!" The considerable understanding and support which we have already extended to help his country to "exist" ought to be followed, in the U.S. own interest, by support and compassion for Japan's special fragility.

APPENDIX 1

Japanese Exports to Major Middle-East Oil-Producing Countries
(In millions of $)

	1973	1974	1975
Iran	484	1014	1855
Iraq	49	474	819
Kuwait	166	279	367
Qatar	20	47	122
Saudi Arabia	389	677	1351
UAE	162	309	420
Totals	$ 1270m.	$ 2800m.	$ 4934m.

APPENDIX 2

Japan's Crude Oil Imports by Source
(Thousand of barrels a day)

	Sep 1973 (Pre-Crisis Level)	1974		1975		1976	Percent of Total	
		2nd Qtr	4th Qtr	2nd Qtr	4th Qtr	Jan	Sep 1973	Jan 1976
Algeria	--	5	5	--	6	71	--	1.8
Egypt	--	4	4	--	--	--	--	--
Iraq	--	34	50	72	116	95	--	2.4
Kuwait	488	553	439	433	419	329	10.0	8.4
Libya	31	91	55	49	68	--	0.6	--
Qatar	--	19	--	13	--	--	--	--
Saudi Arabia	1148	1334	1250	1327	1479	1158	23.5	29.7
U.A.E.	514	574	516	310	558	441	10.5	11.3
Other	--	--	--	--	120	116	--	3.0
Total OAPEC	2181	2614	2319	2204	2766	2210	44.7	56.7
Indonesia	638	694	607	489	490	506	13.1	13.0
Iran	1544	1160	1335	1128	1060	775	31.9	19.9
Nigeria	101	82	126	113	56	88	2.1	2.3
Venezuela	7	11	6	4	6	--	0.1	--
Total OPEC	4481	4557	4389	3938	4258	3463	91.9	88.8
Other	397	368	410	408	431	322	8.1	8.3
TOTAL	4878	4929	4803	4346	4809	3901	100.0	100.0

Note: The rough calculation in use to convert barrels a day to metric tons a year is multiplication by 50. The low seasonal figure for this January, 3.9m. b/d, would thus correspond to some 195 million tons on an annual basis. There are 7.33 barrels, on the average, in a metric ton.

APPENDIX 3

The following list comprises the names and affiliations of those who were of assistance with data, guidance, or interviews in the preparation of this case study. My warm appreciation goes to each.

UNITED STATES

AKINS, James - Retired American Ambassador to Saudi Arabia, Washington
AL-DOWAISAN, Khaled - Second Secretary (Commercial), Embassy of Kuwait
ALLEY, L. R. - Manager, International and Operations Division, Esso Eastern, Houston
ARMACOST, Michael, - Policy and Planning Staff, State
BAIRD, Merrily - Intelligence Research Specialist (Japan), INR/REA, State
BANNERMAN, Graeme - Analyst, Arabian Peninsula Countries, INR/RNA, State
BARHAM, Richard - Chief, Public Affairs Department, Esso Eastern, Houston
BAZARIAN, Carl - Financial Economist, Office of Saudi Arabian Affairs, Treasury
BOSWORTH, Stephen - Director, Office of Fuels and Energy, State
BOWDEN, Lewis W. - Deputy to the Assistant Secretary for Saudi Arabian Affairs, Treasury
BROWN, David - Country Officer for Japan, State
CECIL, Charles - Country Officer, Saudi Arabia, State
CLARK, William - Chief, Special Trade Activities and Commercial Treaties Division, State
CLOUGH, James - Brookings Institution, Washington
COHEN, David - Chief, Japan-Pacific Branch, Office of Economic Research, CIA
CREEKMORE, Marion - Office of Fuels and Energy, State
CRITCHLOW, James - Office of Research, USIA
CUNDIFF, Carl - Office of Monetary Affairs, State
DICKMAN, Francois - Director, Office of Arabian Peninsula Affairs, State
EDMUNDSON, Morris - Chief, North Asia Branch, Office of Current Intelligence, CIA
FORSTER, Clifford - Deputy Assistant Director, USIA (East Asia and Pacific)
GLITMAN, Maynard - Deputy Assistant Secretary for International Trade Policy, State
GOEPFERT, George - Manager, Corporate Planning, Esso Eastern, Houston
GRIFFITH, William - Professor of International Affairs, MIT, Boston
HARRINGTON, Kent - Political Analyst, North Asia Branch, Office of Current Intelligence, CIA
HAZUMI, Mitsuhiko - Counselor, Embassy of Japan
HOFFACKER, Lewis - International Affairs Specialist, Shell Oil, Houston
LAMBERTSON, David - Deputy Director, Office of Japanese Affairs, State
LEROHL, Robert - Analyst, Japan-Pacific Branch, Office of Economic Research, CIA
LEWIS, Bernard - Professor of Near Eastern Studies, Princeton University
LIU, Theodore - Country Affairs Officer, Japan, USIA
LYLE, John P. - Country Officer for Kuwait, State
MARTIN, Richard - Officer-in-Charge, Consumer Country Affairs, Office of Fuels & Energy, State
MILLER, Harvey - Senior Seminar in Foreign Policy, State (CIA)
MORTON, Byron - Country Officer for Iran, State
NAAS, Charles - Director, Office of Iran Affairs, State
NALLE, David - Assistant Director, USIA (North Africa, Near East and South Asia)
PAYEFF, William - Assistant Director, USIA (East Asia and Pacific)
PENNEY, Edward - Country Desk Officer, Egypt, Kuwait, Libya, Saudia Arabia, Sudan, United Arab Emirates and Yemen, USIA
RICHARDSON, John - Assistant Secretary for Educational and Cultural Affairs, State
RILEY, James R. - Public Affairs Department, Esso Eastern, Houston
RUGH, William A. - Deputy Assistant Director, USIA (North Africa and Near East)
SELIGMANN, Albert - Senior Seminar in Foreign Policy, State

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