



Gulf Research Center Knowledge for All

The Gulf region is committed to putting strong bilateral relationships at the heart of its engagement with Asia. The aim is to enhance the ideals of al-ta'āish, al-ta'āun, and al-tasāmuh, or coexistence and co-prosperity, collaboration and a spirit of harmony and tolerance. Equally, Japan as one of the biggest global business partners of the Gulf region has also pursued multilayered relationships that extend beyond energy-related issues. As Prime Minister Shinzo Abe's economic rejuvenation plan gains momentum, Japan has further strengthened its position as a crucial trading partner of the Gulf. Data on Japan's trade with the Gulf region shows that Japanese imports of Gulf products now exceed levels seen prior to the 2008 global financial crisis and the ensuing slowdown in world trade (see Figure 1)

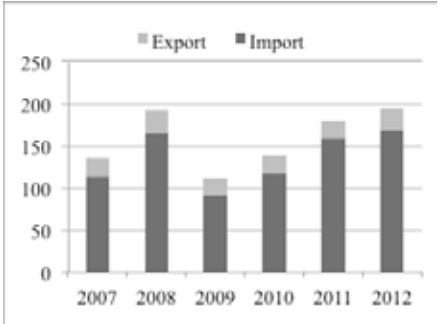


Figure 1: Japanese trade with the Gulf countries

Though it has been just a year since Prime Minister Abe was appointed, he has demonstrated his commitment to developing relationships with the Gulf region. Visits to the Kingdom of Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Qatar and Kuwait have already been made. In May 2013, he signed a Bilateral Investment Treaty with Saudi Arabia, and initiated discussions relating to the transfer of Japanese technology in the field of nuclear power. It is clear that his visit to these key GCC countries is intended to enhance Japan's presence in

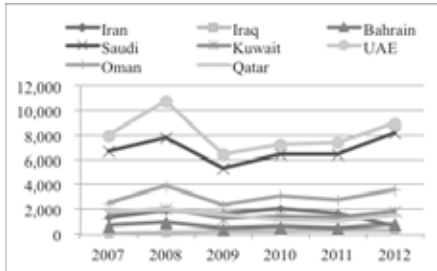


Figure 2: Japanese Exports to the Gulf

the Gulf and develop relationships that go beyond pure economic and business interests.

We should remember that the rebalancing of America's role in the Gulf region will significantly affect the perspectives of China and Japan on political and security developments in the Gulf. Such a shift in the de facto geopolitical balance, implying a greater role for China and Japan, will likely prove a challenging task in both political and economic terms for the parties concerned.

In the global context, the challenges faced by political and commercial conventional global diplomacy include energy security and economic relationships, but also increasingly cyber security and issues such as safe passage through vital sea lanes. Dealing with the challenges posed by these complex issues will require more specialist knowledge, so that governments and companies are able to make timely and balanced decisions in an increasingly inter-connected world.

One of the challenges facing Japan in the Gulf region is how to develop an influential position and strategic relationship with the GCC countries and also with Iran and Iraq at the same time.

In this bulletin, we also look at the Japan-Bahrain relationship. Bahrain was once a major financial center in the Middle East for Japan. After the Dubai International

Financial Center (DIFC) was developed, many major Japanese financial institutions gradually moved their key operations to Dubai. While commemorating 40 years of diplomatic relations, both countries must now consider how to promote a sustainable and effective relationship, in order to contribute to the region's peace and integrity.

This edition includes two Iran-related articles which are written by regional specialists. One article is on Iran-Japan relations while the other focuses on Iran-Asia. Clearly, the apparent shift in Iran's political direction, as indicated by the newly-elected President Hassan Rouhani, could have substantial impact in a move towards a sustainable long-term peace, both in a regional and wider global context. Besides these two articles, this edition also has an analysis which throws light on Saudi-Malaysian relations, particularly the significant economic and cultural ties between these two nations.

The Gulf Research Center, as a leading think tank, is ready to support and provide economic and commercial information to both Asian and Gulf-based institutions. Our mission is to enhance understanding between both regions and improve the ability of business and political leaders to make informed decisions. We are able to provide you with custom-made research, consultancy, networking, and marketing research.

I hope you will find this edition of the GCC-Asia bulletin informative and thought-provoking. We would welcome your valuable feedback.



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Toward Making a Quantum Leap: Japan's Relations with Saudi Arabia

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Mr. Shinzo Abe, the Prime Minister of Japan, recognizes the role of the Kingdom of Saudi Arabia as the “gateway” to the Middle East and the Arabian Gulf region, in politico-security, economic as well as cultural and civilizational terms. That is the reason he chose Jeddah as his first destination in his April-May 2013 trip to the region which included stops in the United Arab Emirates and Turkey. The last official visit to Saudi Arabia by a Japanese Prime Minister was in April 2007 – and that was also by Prime Minister Abe in his first term. Building on the spirit of the “strategic multilayered partnership” that both he and the Custodian of the Two Holy Mosques King Abdullah bin Abdulaziz Al-Saud agreed to jointly develop, the Prime Minister this time was fully committed to place Japan-Saudi bilateral relations at the centerstage of Japan’s engagement in the entire region to enhance the ideals of al-ta’āish, al-ta’āun, and al-tasāmuh, or coexistence and co-prosperity, collaboration, and a spirit of harmony and tolerance.

Mr. Abe’s dynamic approach to the Middle East and the Gulf region is guided by the pursuit of synergy and unity of destiny which goes well beyond the interdependence in energy. There is no doubt that Japan still depends greatly on oil and gas imports from the region, and the level of dependence has risen as Japan’s nuclear power generation is under strict scrutiny (currently all but two nuclear reactors

out of the total of fifty in the 17 nuclear power plants across Japan are suspended in order to ensure their safety) after the Fukushima Daiichi nuclear power plant accidents in the wake of the Great East Japan earthquake and tsunami disasters in 2011.

During his recent visit to Saudi Arabia, Prime Minister Abe and Saudi Crown Prince Salman bin Abdulaziz Al-Saud issued the “Joint Statement on the Strengthening of the Comprehensive Partnership between Japan and Saudi Arabia” and expressed the intention to further strengthen the partnership to achieve common goals in the political, economic and cultural fields. First and foremost, in the business and innovation areas, we have rich potential in manufacturing, advanced medical and health care, energy efficiency and renewable energy technologies as well as infrastructure development. We have (now, after the lessons from the accident) one of the safest nuclear power generation systems in the whole world. Mr. Abe pursues economic revitalization plans often termed “Abenomics” and the Japanese business climate is rapidly improving. The good economic health of Japan should positively contribute to the world economy, including the Middle East and the Gulf region, as it would encourage Japanese imports and overseas investment. Therefore, as a result of the stimulus measures and encouraged by the works of the Saudi-Japanese Business Council and the Industrial Task Force, as well as the continuous promotion of bilateral economic and technical cooperation by the Saudi-Japan Joint Committee, the cooperation between the two governments and their private sectors should expand. In this connection, the signing of the investment agreement between the Governor of the Saudi Arabian General Investment Authority (SAGIA)





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and Japan's Ambassador to the Kingdom, in the presence of the Crown Prince and Prime Minister Abe, was a welcome move.

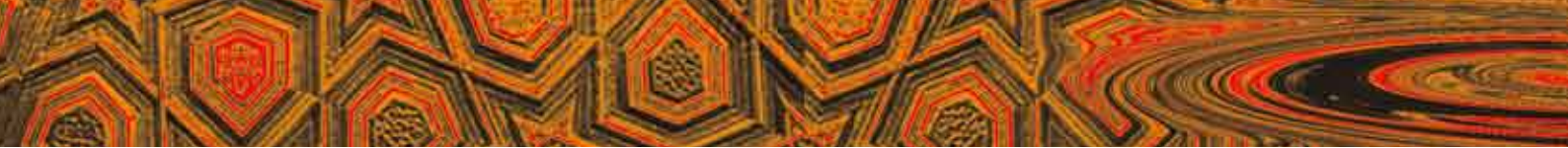
Beyond these economic and commercial initiatives, Mr. Abe's visit marked the beginning of intense consultation and cooperation in the fields of diplomacy, defense and security between Japan and Saudi Arabia. In fact, the joint statement clearly expressed the two countries' intention "to enhance high-level political dialogues."

In my view, the following three broadly defined issue areas should be given high attention. First is maritime security, particularly securing the vital sea lanes of communications that connect the Gulf and East Asia from piracy, terrorism, and other destabilizing threats. The unhindered movement of vessels is very important and Japan-Saudi cooperation in initiatives like minesweeping services in the waters of the Gulf region, as suggested by Dr. Abdulaziz Sager, Chairman of the Gulf Research Center, will prove to be most useful.

Second, is the political situation in the region, most notably the crisis in Syria, the nuclear program in

Iran, and the Israeli-Palestine peace process. In his address at King Abdulaziz University on May 1, Prime Minister Abe said, "We cannot close our eyes to the tragedy that's unfolding in Syria or the Iranian nuclear issue." Japan has provided \$80 million in emergency humanitarian aid to the Syrian people. Supporting the two-state solution to the intractable Israeli-Palestinian conflict, Japan has extended around \$1.35 billion to encourage Palestinians' efforts to build their own state. Besides, Japan also pledged new assistance amounting to \$2.2 billion to the Middle East and North Africa in transition. On the Iranian issue, Japan could play a more constructive role if it is given diplomatic space which is normally led by the P-5 (permanent members of the UN Security Council) and Germany.

And third is the role of the United States both in the Gulf region and in East Asia. The recent "rebalancing" of the US role in East Asia is a welcome development as it would check the rise of an assertive China and reckless provocations by North Korea as the perceived "absence" of the US during the decade since the 9/11 incidents has caused a power vacuum in East Asia (though we should recognize that the US role in the wars in Afghanistan and Iraq caused huge political and security repercussions in the Gulf region). As US allies,



both Japan and Saudi Arabia need to talk straight to our American counterparts to help them best use their power and influence.

Last but not least, I would like to highlight the value of cultural, educational, and people exchanges between the two countries. For us, we hope to learn more about the Islamic world in the most authentic way through Saudi Arabia. At the universities in Japan we are looking forward to welcoming more students and trainees from the Gulf countries. Although our cultural and civilizational backgrounds are different, it is indeed invigorating to find similar traditional traits and values through people-to-people exchanges between Japan and Saudi Arabia. Prime Minister Abe's emphasis on al-tasāmuh (tolerance with harmony) is a case in point. Furthermore, the rise of Islamic extremism is a threat that is of concern to both sides. During the hostage crisis in a gas plant in Algeria in January 2013, several Japanese business representatives, who had wholeheartedly dedicated their expertise and enthusiasm to the success of the project in this remote land, lost their precious lives in the terrorist attack. Tragedies like this should not be repeated and Japan and Saudi Arabia, in collaboration with other

like-minded partners, should address the root causes to stop the spread of terrorism.

In this globalized world, we see more connections than differences in our interests. The dream of "One Asia," laid out by Japanese art philosopher, Okakura "Tenshin" Kakuzo (1863-1913) in his *The Ideals of*

As US allies, both Japan and Saudi Arabia need to talk straight to our American counterparts to help them best use their power and influence.

the East with Special Reference to the Art of Japan (London: John Murray, 1903), to proudly equate the universality and aesthetic stature of Asian civilization with those of Western colonial powers, is no longer something very special. True that our diversities remain and they enrich our lives. But geographical distance alone can never separate us. As we get ready to celebrate in the year 2015 (1436 AH), the 60th anniversary of the establishment of diplomatic relations between Japan and Saudi Arabia, we should enhance our partnership further to make a quantum leap in promoting the ideals of our al-ta'aish, al-ta'aun, and al-tasāmuh.



Saudi-Malaysia Relations

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The Saudi-Malaysian relationship, while rooted in a history of sustained contact predicated on religious and commercial links, only began to develop in the 1970s. This was in part due to King Faisal's special relationship with the Malaysian Prime Minister Tunku Abdul Rahman El-Hadj. King Faisal visited Malaysia in 1970, becoming the first Saudi head of state to do so. This was reciprocated by several visits on the part of Tunku's successors – Abdul Razak and Hussein Onn – in 1975 and 1976, respectively. These high-profile exchanges were largely driven by the need to solicit Saudi aid and fiscal support for Malaysia's economic development projects under the Third Malaysian Economic Plan (1976-1980) cycle. During this period, Saudi aid – in the form of loans – exceeded \$250 million and was mainly directed at financing the development of education and medical infrastructure (such as the University of Technology and the Medical Faculty of the National University of Malaysia), ports, highways, and land reclamation projects among others. This was coupled with growing contributions from the Saudi state to Malaysia's religious organizations and institutions, including to Tunku Abdul Rahman's PERKIM (the Muslim Welfare Organization of Malaysia) and the International Islamic University of Malaysia (IIUM). In the 1980s, Saudi aid declined perceptibly as the Kingdom regarded Malaysia as a 'developed' country.

Saudi-Malaysian economic ties have been traditionally shaped by energy. While Malaysia did export a

variety of goods into the Saudi market, including agricultural produce, raw materials, precious metals, and increasingly machinery and electronic products, these were dwarfed in size by the Kingdom's oil and petrochemical exports. This situation translated into a serious trade deficit in favor of Saudi Arabia from the 1960s, with some reversals in the late 1980s and 90s mainly due to the collapse in international oil prices and the development of Malaysia's domestic oil production through PETRONAS (founded in 1974). The emergence of this indigenous capacity, however, did not fundamentally challenge the basic contours of the energy relationship between Saudi Arabia and Malaysia, primarily due to two reasons: firstly, Malaysian oil is of the sweet and low sulfur variety and is thus largely exported to the Asia-Pacific market where it "fetches a higher premium compared to other crude blends." Accordingly, and in order to satisfy its own internal consumption and realize its refinery investments, Malaysia imports lower-cost crude oil from abroad. As of 2010, Malaysia imported 160,000 bbl/d, more than half of which came from Saudi Arabia, the UAE, and Qatar; secondly, domestic production peaked at 862,000 bbl/d in 2004 and has since then declined "as a result of maturing fields," reaching 643,000 bbl/d in 2012. This will likely strengthen energy relations between the two countries in so far as current trends hold and the Kingdom's export capacity is not seriously undermined over the short and medium-term.

In addition to the aforementioned energy policy, the Mahathir government sought to address the trade deficit with the Kingdom by attracting Saudi investments as early as the 1980s (generally under the umbrella of the 'active internationalism' and Islamic-oriented foreign policy of Prime Minister Mahathir) but Saudi capital was comparatively small and limited to a few areas in food processing, plastic materials,



textiles, and electronics. By 1990, Saudi-Malaysian bilateral trade reached \$260 million, which was, as noted earlier, largely tilted in favor of the Kingdom. However, this situation changed drastically after the Asian Financial Crisis in 1997, when Malaysia sought to diversify its economic portfolio by turning to the Gulf, emphasizing tourism and more expanded trade relations with the Kingdom. This coincided with the launch of the Saudi economic reforms which led to the formation of SAGIA in 2000 and, more importantly, paved the way for the Kingdom's accession to the WTO in 2005. A Saudi-Malaysian Bilateral Trade Agreement was signed in 2000 (an Avoidance of Double Taxation Agreement had already been signed in 1993) and, to facilitate Saudi investments and tourism, visa requirements on the Malaysian side were largely dispensed with in 2001. The geopolitical situation that followed the 9/11 attacks also reinforced these trends and necessarily framed King Abdullah's visit to Malaysia during his 2006 Asia tour.

By 2012, Saudi-Malaysian bilateral trade grew to \$3.66 billion, with Saudi Arabia emerging as Malaysia's 19th largest trading partner. In actual value this figure is likely to be somewhat higher as most Malaysian goods are re-exported through the UAE due to

tax differentials between the two Gulf countries. Moreover, Saudi investment has been steadily growing (although since 2005, it has been outsized by Emirati investments which make up 78 percent of total GCC projects in Malaysia) thanks to favorable tax incentives and sukuk issuances emanating from the Economic Transformation Program (ETC), as well as the signing of several key agreements including the ASEAN-GCC Two Year Action Plan (2010), the Malaysia-GCC framework agreement (2011), and the MoU on Standardization (2012), all of which are aimed at facilitating bilateral trade and investment. By 2012, Saudi investment was estimated to be \$865 million. These investments have largely concentrated on low-value added areas such as private equity, energy, and real estate, but also some dynamic sectors such as Islamic banking and the halal industry.

A few examples of the growing Saudi presence in Malaysia are worth taking note of: since its 2006 entry into the market, the Al-Rajhi Bank (the world's largest Islamic bank) has successfully established 24 branch offices across the country and is currently a major investor in the Penang International Halal Industry Park. More significantly, PetroSaudi International Ltd., a global investment and oil exploration/production





company owned by the Saudi royal family, has also entered the Malaysian market through a \$2.6 billion J-V in energy projects with 1Malaysia Development Bhd, a state-owned firm “which acts as a vehicle for Middle East investments in Malaysia.” In addition to this, PetroSaudi has indicated an interest in investing over \$2 billion in infrastructure and energy projects, as well as the Islamic banking sector. The company appears to be a major economic and political asset in the context of Saudi-Malaysian relations. According to various reports, the chairman of PetroSaudi Prince Turki Al-Saud leased two Boeing 747s to ferry home Malaysians fleeing from Egypt after the 2011 Tahrir Revolution – a gesture that was made, according to PetroSaudi’s CEO Tarek Obaid, “on behalf of the company and the Saudi royal family...[demonstrating] PetroSaudi’s continued commitment to Malaysia.” In 2013, Saudi Arabia’s Project Management & Development Company Ltd (PMD) has invested over \$1.6 billion in a polysilicon manufacturing plant in the eastern state of Sarawak. In comparison, Malaysian investment in Saudi Arabia has been quite limited, mainly due to structural issues, bureaucratic red tape, and the difficulty involved in obtaining business visas. Nonetheless, Malaysian investments have been growing steadily, mainly in the industrial sector. The participation of Malaysian companies in Saudi EPC projects, including the Al-Faisal University, King Abdullah University of Science and Technology, the Jizan Economic City, the Jabal Omar Project and the Jamarat Bridge, among others, is noteworthy.

People-to-people relations also constitute an important element in Saudi-Malaysian ties. While there is only a small Malaysian community in Saudi Arabia, estimated to be around 1,000 strong (most of whom work as nurses besides a few students of Shariah and the Islamic sciences), nearly 30,000 Malaysians come for the Haj and Umrah every year. By contrast, there are currently 2,000 Saudi students in Malaysia pursuing higher education in IT, engineering, and medicine. More important are the Saudi tourists coming to Malaysia for leisure and medical tourism and who, in



2011 alone, were reported to have reached 87,693.

Economically, Saudi-Malaysian ties are expected to continue to grow and strengthen over the coming years, with greater energy dependency and investments constituting its basic pillars. Moreover, it is likely that these economic and cultural ties will help deepen the nascent strategic partnership between the two countries as reflected in the signing of a 2010 MoU on Security Policy Cooperation covering such issues as “terrorism, drug trafficking, falsifying documents and cross-border crimes” and more significantly the dispatch of Prince Bandar bin Sultan – then the Saudi National Council Security General – as a special envoy to Malaysia. Overlaying this is the general warmth in relations between the Saudi royal family and Malaysia’s current Prime Minister Najib Razak (reflected, for example, in the speedy extradition of Hamza Khasghari) ensuring in turn favorable prospects for the continued development of Saudi-Malaysia ties.

The Development of Bahrain-Japan Economic Relations and its Future Possibility

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In 2012, Bahrain and Japan celebrated the 40th anniversary of diplomatic relations. Up until now, both countries have built up relationships of trust in various fields. For example, friendly political relations can be observed in the official delegation of royal family members as represented in the visit of Crown Prince of Japan to Bahrain in 1994, and the visit of King Hamad of Bahrain to Japan in 2012. The recent visits of high-profile political figures, such as the Crown Prince Salman Bin Hamad to Japan and the Japanese Prime Minister Shizo Abe to Bahrain in 2013, also represent firm political ties which connects the two states.

Along with these political ties, people-to-people relations, represented in an increasing number of Bahraini students coming to Japan for higher education, and also the Japanese government-funded "Ship for World Youth Program," which aims to provide multi-cultural and national opportunities for young generations, have successfully enforced mutual ties of the two countries at the youth level. This article, however, will focus on Bahrain-Japan economic relations, for it is the most distinctive and vital tie that links the 40 years of these longtime friends.

The relations between the members of the GCC and Japan started to strengthen after outbreak of the first oil shock in the beginning of 1970s. But this did not apply to Bahrain-Japan relations, since the kingdom is not a major oil exporting country. Even though the

Kingdom of Bahrain is known as the first Gulf Arab state where crude oil was found in commercial quantities, compared to its neighboring peers, the kingdom is currently the least natural resource-dependent nation. At the end of 2010, crude oil and natural gas accounted only for 24.8 percent of the nation's GDP.¹ This is mainly due to its limited reserves of natural resources, and consequently, Bahrain began to urgently kick-start the implementation of an industrial diversification strategy from the 1960s. This is, as discussed below, the very point from which Bahrain-Japan economic relations started to strengthen.

The strategy has principally focused on two sectors - manufacturing and service. As per the manufacturing sector, the Bahraini government committed itself in developing its petrochemical and aluminum industry. For example, in 1968, the government founded Aluminum Bahrain [ALBA] for the purpose of refining and exporting aluminum by utilizing relatively cheap oil and gas resources. The government also took the initiative in establishing the Gulf Petrochemical Industries Company [GPIC] in 1979. Like ALBA, this company utilizes natural gas extracted from Bahraini territory, and manufactures fertilizers and petrochemicals for export purposes.

Numbers of Japanese corporations have contributed to this sector by providing required infrastructure with their high technologies and knowledge-based service. For example, JGC, Kobe Steel, Mitsubishi Heavy Industries, and Yamato Kogyo respectively engaged in building iron pellet plants, aluminum rolling and refinery plants, ammonia/urea plants, and steel plants. Along with these heavy industry enterprises, numerous Japanese electronics corporations have



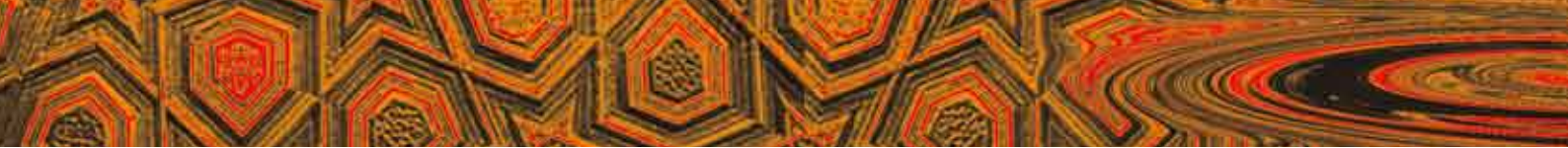


also provided the infrastructure essential for this sector. For instance, Sasakura Engineering, Nissin Electric, Furukawa Electric, and Fuji Electric separately built transformer substations, laid underground/submarine power cables, and built desalination plants. These two manufacturing industries, together with oil refining business of Bahrain Petroleum Company [BAPCO], contributed to approximately 15 percent of the kingdom's GDP in 2010.² On that account, the manufacturing sector is currently considered as one of the most productive sectors in Bahrain.

As per the service sector, the Bahraini government committed itself to developing its finance industry. For instance, in 1973, the government established the Bahrain Monetary Agency [the Central Bank of Bahrain or CBB from 2006] with the aim of maintaining monetary and financial stability in the kingdom. As Hideki Nukaya, a senior researcher at the Institute for International Monetary Affairs in Japan, notes, the Agency or CBB has enjoyed a high reputation amongst the multinational banks for its strict monetary regulation and supervision. He argues that this very existence of the institution is the biggest advantage that distinguishes Bahrain from neighboring Gulf States as a prominent financial center.³ Besides this Agency, the government successively set up numerous other

monetary institutions, such as the Offshore Banking Unit [OBU] in 1975, the Bahrain Institute of Banking and Finance [BIBF] in 1981, and Bahrain Securities Market [BSM] in 1987. In an attempt to further lure foreign capital, the government also enacted laws exempting personal and corporate withholding taxes, and abolished restrictions over the exchange control on the repatriation of capitals, profits and dividends. Owing to all of these continuous efforts, the finance sector in the kingdom contributed to nearly 20 percent of nation's GDP in 2010.⁴

In response to this commerce-friendly environment, Japanese financial institutions started to set up their regional offices in Bahrain. For example, in 1979, the Bank of Tokyo-Mitsubishi UFJ [BTMU] and Sumitomo Mitsui Banking Corporation [SMBC] respectively received their operation license in the kingdom. Mizuho Corporate Bank and Nomura Investment Banking also started their business in 1980. As Masaru Kuroda, regional head for the Middle East at BTMU, comments, Bahrain represents an important market because it is regulated very well by the authority's globally standardized financial infrastructures, and owing to this reliable operating environment, Japanese banks and companies have learned about conducting business in the Middle East region.⁵



The abundance of a sophisticated workforce is another factor that explains Japanese institutions' preference for Bahrain. As the fruit of BIBF, the kingdom enjoys qualified and well-disciplined manpower for banking and finance. As Takuya Furuya, CEO of Nomura Middle East, points out, Bahrain distinguishes itself in terms of the excellent human resources and training, and the kingdom is substantially "the best pool of talent in the Gulf."⁶

The Japanese banks and security firms have played key role in funding the kingdom's infrastructure and industry, including those of Government Related Entities [GREs], and its neighbors' in the GCC region. Although the recent internal political crisis triggered by the "Arab Spring", together with the competition of Dubai and Qatar over the position as the financial gateway to the Middle East,⁷ has weakened the growth potential and damaged its reputation as a business service hub, a mass exodus of Japanese financial institutions did not happen, and the kingdom still remains as a key regional finance center for them.⁸

How will Bahrain-Japan economic relations develop in the future? As Fatih Birol of the International Energy Agency argues, with the increased availability

of new energy resources such as shale gas and oil sands, Asian countries including Japan are required to revise their commercial, diplomatic, and even military relations comprehensively with the oil exporting Gulf monarchies.⁹ Considering the fact that Japan currently depends on the GCC for nearly 90 percent of its crude oil consumption, his remark cannot be simply ignored. However, as clearly explained above, Bahrain-Japan economic relations have not been based so much on the trade of crude oil. Rather, their economic relations, as the chief representative of SMBC in Bahrain Isa Shehab defines, have been mainly based on the transfer of technology, education, and training.¹⁰

Shehab's remark is admittedly true though if translated more thoroughly into practice it means that Bahrain and Japan need to further shift their fields of cooperation from the conventional physical infrastructure projects to the service infrastructure projects. At the moment, there are plenty of projects through which both countries can unite their efforts. For instance, Bahrain is currently experiencing a strain on the supply of electricity, food, and water as a result of fast population growth. Japan can help enormously with this problem as it is a leader in green technology, renewable





energy, and efficiency measures. Japanese plant engineering technologies specializing in maintenance, refurbishment, and advanced catalytic cracking can also contribute to further develop Bahrain's petrochemical industry.¹¹

Moreover, Bahrain can help Japan in Islamic finance-related businesses. Since Japan's current account surplus is barely maintained by income account surpluses supported by direct foreign investment earnings, it is believed that its economy is currently in a gradual transition from an export-oriented economy to an investment-based economy. Therefore, so as to keep its economy afloat, it is crucial for Japan to diversify its investment portfolio. Besides the conventional banking and finance industry, Bahrain started to nurture the concepts, rules and common standards of Shari'a compliance from the mid-1970s, and since then, the kingdom has been functioning as "the dominant player" of Islamic finance in the region.¹² As the Islamic capital industry is expected to take an increasingly important role in global financial and commercial markets, Bahrain can play a reinforcing role to Japanese enterprises by providing them with the technical support and practical expertise relevant to this particular field. As "the financial situation of Japanese companies has improved in recent years," says Kenichiro Yoshida of Mizuho Research Institute,

"[they] are now ready to invest overseas again."¹³

As global power is shifting from west to east, Bahrain and Japan are constantly required to reorganize their priorities to reflect the realities of the global political economy. And as for Bahrain in particular, the current political unrest must be tackled and solved non-violently with the least possible delay. However, the 40 years of friendship, based on the mutual contribution for sustainable development, cannot be shaken so easily by these transient turbulences of the era. By upholding a long-term perspective, just like their predecessors did in the past 40 years, Bahrain and Japan will certainly enjoy the stable prosperity in the coming decades.

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¹ Arab News, March 16, 2012.

² Ibid.

³ Hideki Nukaya. 2011. "Can Bahrain maintain its position as a financial center?," in *Newsletter*, 9, Institute for International Monetary Affairs, pp.6-7 (Written in Japanese).

⁴ Arab News, op.cit.

⁵ The Bahrain Banker, Autumn 2012, Bahrain Association of Banks, pp. 13-4.

⁶ Ibid., p.17.

⁷ Asim Ali and Shatha al-Aswad. 2012. "Persian Gulf-based SWFs and financial hubs in Bahrain, Dubai and Qatar: a case in competitive branding," in the *Sovereign Wealth Fund Bulletin*, February 2012, The Fletcher School.

⁸ BTMU decided to shift its regional main office function from Bahrain to Dubai in 2012, following a strategic review of its activities in the region. But according to Mr. Kuroda, the firm will maintain a presence in Bahrain "albeit a smaller presence in terms of head count." On the contrary, another Japanese financial firm Daiwa Capital Markets Europe closed its office in Dubai and transferred all of its functions to Bahrain in 2011. Bahrain Association of Banks, op.cit., p.13; David French. 2013. *Mideast Money: Bahrain hangs on as banking centre amid political turmoil*, in *Reuters*, February 20, 2013.

⁹ *Nikkei Newspaper*, February 11, February 23, 2013 (Written in Japanese).

¹⁰ Bahrain Association of Banks, op.cit., p.18.

¹¹ Koichi Iwama. 2012. "Analysis of recent trends and topics: the future competitiveness of ethylene plants in Middle East oil producing countries against ethylene plants by shale gas revolution in the United States of America and the collaboration with Japanese chemical companies," in *Japan Cooperation Center for the Middle East NEWS*, 37(5), (Written in Japanese).

¹² Ali, H. and Shatha al-Aswad, op.cit., p.7. As Mr. Nukaya states, Bahrain's transparent monetary infrastructure supervised by the internationally standardized agency, together with the kingdom's political and economic closeness to Saudi Arabia, the biggest economic power in the Gulf and where the Islamic law is most strictly applied, distinguishes it as a prominent Islamic finance center in the region. Nukaya, H., op.cit., p.8. Besides this, since 2011, multinational enterprises, such as global consulting giant Deloitte and world's leading source of intelligent information Thomson Reuters, have decided to establish regional hub centers for Islamic finance and banking in Bahrain. All these facts indicate Bahrain's yet leading position of Islamic banking and finance over Dubai and Qatar.

¹³ Bahrain Association of Banks, op.cit., p.64.

Iran and Leading Asian Countries: Perspectives of the Economic Dialogue

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Since the early 2000s, Asian countries have been gradually acquiring special importance for Tehran as prospective trade and investment partners. It is possible to argue that, by 2013, the East Asian region and India have become a strategically important vector of Iranian economic diplomacy. During the last decade, in spite of all the challenges it faced, the aggregate volume of Iranian trade with China, South Korea, Japan and India saw an upward trend, and, by 2012, it had reached \$90 billion. Moreover, the balance of trade was in favor of Tehran, and this, in turn, made these countries an appealing market for the Iranian authorities. Oil and the so-called traditional goods (carpets and dry fruits) are Iran's main export items whereas imports include machinery, petrochemical products, petrol, food products, automobiles, and consumer goods. The track record of investment activities of the aforementioned Asian states would probably be less impressive without China whose investment projects – both completed and under implementation – number more than 100. However, Japan, South Korea and India are also either participating in development projects in Iran or thinking about allocating necessary funds for investments.

Although Iran and the Asian countries have a mutual interest in establishing closer economic ties, their motives are different. Tehran's behavior is determined by political calculations. The growing confrontation

with the West and the periodically emerging threat of a military attack make Iranian authorities look for reliable supporters and allies who would be able to offset the negative impact of Iran's opponents on the economic situation in the country and prevent them from taking abrupt and bold measures. Russia is no longer seen as a potential defender as it used to be earlier and the Iranian elite has gradually turned its attention to the countries of East Asia. However, given the absence of a common ideological ground, Tehran has chosen to get the Asian countries on its side by economic means. Luckily for Iran, it has one of the most effective and reliable leverages – oil.

Indeed, energy security is one (if not the main) driving factor behind the Asian states' efforts in Iran: until June 2012, on an average, Tehran was providing about 10 percent of oil imported by these four states. Even the US and EU sanctions against Tehran adopted in 2012 as well as political pressure exercised by Washington and Brussels could not compel China, South Korea, Japan or India to completely cut their oil transactions with Iran. The Korean, Indian and Japanese economies would be able to function only for about a month without Iranian oil. By early 2013, Chinese and Korean imports of oil from Iran were only 20 percent lower than during previous years.

The compulsion of these countries to continue oil imports from Iran is based on more than economic reasons. Beijing would probably replace Tehran as a supplier, if the Chinese authorities did not have their own global ambitions. Chinese aspirations are definitely contradictory to the interests of some other international players and, therefore, China is gradually becoming concerned about its security, including the



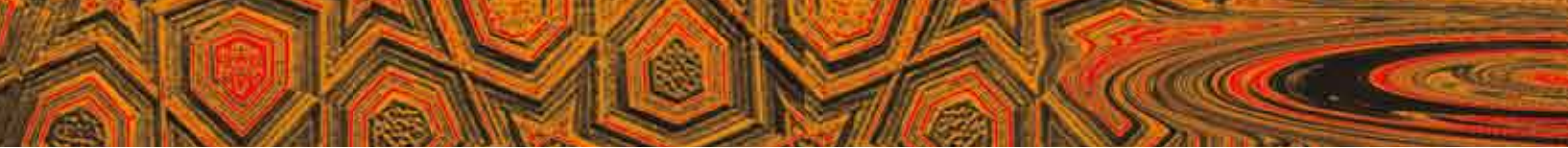


energy aspect. Under these conditions, Iran as an oil and, potentially, gas supplier appears attractive: Beijing probably sees it as dangerous to solely rely on hydrocarbon imports from the GCC countries with their pro-American foreign policy.

On the other hand, Iran is seen by the Asian countries as an important regional transit road hub, connecting Turkey, Russia, China, the Caucasus and Central Asia with the markets of the Arabian Gulf, India and Southeast Asia. Moreover, this importance is gradually increasing with the growing intention of India, China as well as Japan – and South Korea to some extent – to scout for new markets for their exports. The Chinese authorities are especially interested in Iran as a regional hydrocarbon transit hub controlling the oil and gas flows within the region. Thanks to the geostrategic location of Iran – close to oil- and gas-rich Trans-Caucasia, the Caspian region, Central Asia and the Middle East – the flow of hydrocarbon exports from these regions could pass through its territory. In other words, the Chinese consider Iran as a fulcrum, influence over which would give Beijing some leverage to influence the regional energy market.

International economic sanctions imposed on Iran remain one of the main external factors shaping

Tehran's Dialogue with the outer world. Their influence on Iranian economic cooperation with Asian countries cannot be considered in purely negative or positive terms. It would be more correct to speak about the diverse implications which these punitive measures have on the development of the Dialogue. The sanctions adopted by the US and EU have dealt a serious blow to the Iranian economy. As pointed out by some US experts "\$50 to \$60 billion in Iranian oil and gas development projects have been terminated or put on hold in recent years, primarily by European companies, as a result of the threat of sanctions." The investment thus lost could probably be considered irrecoverable unless Asian countries (primarily, China and South Korea) stepped in. Up to now, China has provided Iran with a number of opportunities either to bypass the American and European sanctions or to mitigate their negative influence. First of all, by 2012, China was the main supplier of petrol to Iran. By mid-2012, Chinese companies such as Zhuhai Zhenrong, Chinaoil and Sinochem not only supplied Tehran with fuel, but sold Iranian oil to third countries. The flight of Western companies from Iran created a vacuum in the country's investment market which was swiftly filled by the Asians who faced no rivals. Thus, during the period 2006-2012, Chinese companies signed contracts supporting the modernization of the Arak refinery and



the development of such oil and gas fields as Northern Azadegan, Yadavaran, Garmsar and phase 11 of the South Pars (previously assigned to French firm Total). In 2012, the Chinese government reportedly took a decision to launch large-scale investments in about 20 petrochemical projects in Iran.

However, the international punitive measures created not only opportunities for the development of Asia-Iran economic ties but also obstacles. In order to

Chinese aspirations are definitely contradictory to the interests of some other international players and, therefore, China is gradually becoming concerned about its security, including the energy aspect. Under these conditions, Iran as an oil and, potentially, gas supplier appears attractive

minimize the influence of international sanctions on their economies, China, India, South Korea and Japan were compelled to reduce oil imports from Iran. Apart from that, the governments of these Asian states are compelled to comply with UN resolutions and to limit some exports to Iran (such as, those related to arms deals) or to conduct it illegally. The extra-territorial nature of the US sanctions as well as the fact that these measures were supported by a large number of countries (such as the UAE, Canada, Australia, the members of the EU and others) also have a negative influence on Asia-Iran economic relations. Even when supported by their government, Asian exporters appear to be scared to deal with Iran in case they are penalized by the US authorities. Thus, by 2013, the leading Asian companies had taken a wait-and-see approach: usually, they get involved in different projects but try not to be in a hurry to implement them as they do not know the possible reaction of the West. By doing this they try to preserve their share in Iran's energy sector but hope to use it only when the situation relating to sanctions is settled.

As a result of sanctions, it is almost impossible to analyze the current development of the economic (as well as political) dialogue between Iran and the leading Asian countries without taking into account the position of Washington. Consequently, it is probably correct to

assume that the future of their relations will be also determined by the US stance. There are, at least, two probable scenarios regarding the development of the situation in future.

Scenario 1: The continuation of confrontation between Washington and Tehran. This will lead to further economic engagement between Iran and China (as well as probably South Korea and India) and to the reorientation of Iran's oil and gas industry to the markets of East Asia and India. The absence of Western companies in Iran will also create convenient conditions for the activities of Asian companies in the Iranian domestic markets where they will have no competitors. Yet, increased political and economic pressure by the US on the Asian countries cannot be ruled out. There is a possibility that the gradual evolution of the sanctions regime will make the conduct of business with Iran either extremely hard or impossible.

Scenario 2: US-Iran rapprochement. The restoration of relations between Tehran and Washington will probably have a diverse influence on Iran's economic cooperation with the four leading Asian countries. On the one hand, this will eradicate many of the obstacles in the development of this Dialogue and probably make countries such as Japan more active in Iran. On the other hand, cooperation with China, South Korea and India will lose its political importance for Iran. US-Iran rapprochement will open Iran not only for American companies, but for European firms. This will inevitably make market conditions for the Asian companies extremely competitive: although the Americans will have to start their cooperation from scratch, European absence has not been that long and the EU only needs to resume its activities rather than restore long-lost positions. Finally, the return of the US will strengthen the positions of pro-Western political groups among the Iranian political elite which had been seriously weakened during the period 2009-2012. They will certainly try to change the vector of Iran's energy diplomacy from the East to the West by trying to restore Iranian participation in the Nabucco pipeline and the so-called Persian gas pipeline.

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Japan-Iran Relations: From the Silk Road to Oil Tankers

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Japanese encounters with Iranian culture date back to the 8th century. Relations between Japan and Iran have undergone a profound transition over the course of 1,000 years, from long-distance trade through the Silk Road to modern-day high-value trade. Nowadays, their relations are determined not only by bilateral factors, but also by international politics because of the geopolitical and economic importance of Iran.

Glass bowls from the Sasanian period came all the way to Japan via the Silk Road over a distance of almost 10,000 km in the Nara Period (719-794). They were presented to the Japanese emperor together with fabrics with Persian motifs and housed in the Shosoin royal treasury. These valuable arts and crafts from Iran attracted the Japanese of the time and stimulated their imagination. For example, a story set in Persia called the “Story of Utsuho” was written in the mid-Heian period (794-1192). Thus, Japanese people have admired Persia as an exotic destination for a very long time. Reza Shah, a king of the Pahlavi dynasty, formally declared the country’s name to be “Iran” in 1935. Some Japanese people still cannot link the positive image of “Persia” to the negative image of “Iran” prevalent among the Japanese public since the Iranian Revolution and takeover of the US Embassy in Tehran in 1979.

Formal diplomatic relations between Japan and Iran

were initiated in August 1929, when a Japanese legation was opened in Iran. In the following year, Iran established a legation in Tokyo. However, diplomatic relations were suspended in April 1942 after the Soviet and British armies invaded and occupied Iran during World War II. After Iran signed the Peace Treaty of San Francisco with Japan in September 1951, diplomatic relations resumed in November 1953. In February 1955, the legations were elevated to the status of embassies.

In March 1951, the Iranian government nationalized the oil industry, which had been controlled by the Anglo-Iranian Oil Company (AIOC), the present BP, since 1908. The government led by Prime Minister Mohammad Mosaddeq soon faced difficulties in finding importers for its oil because of the British economic boycott. Major international oil companies also sided with the British. Idemitsu, an independent Japanese oil company, started negotiations with the National Iranian Oil Company (NIOC) in November 1952 to acquire at a reasonable price the oil desperately needed to rebuild the war-torn Japanese economy. When its oil tanker, Nisshomaru, appeared in the port of Abadan in April 1953 despite a number of obstacles, the Iranian public enthusiastically welcomed it. Idemitsu’s direct import of Iranian oil was thwarted by the overthrow of the Mosaddeq government in the August 1953 coup d’état. However, the Nisshomaru incident played an important role in promoting friendship between the peoples of the two countries as they struggled for national sovereignty.

By 1975-76, Japan had risen to become the third largest importer of Iranian products, behind the United States and West Germany, and the world’s largest





importer of Iranian petroleum. After the oil crisis in 1973, Iran attracted many Japanese investors. The most noteworthy large-scale joint project was the Iran-Japan Petrochemical Company (IJPC), whose initial outlay was as much as \$600 million. It employed over 1,000 workers at its peak in October 1978. In February 1979, the Japanese government officially recognized Iran's new revolutionary government. In spite of the political disorder after the revolution and the Iran-Iraq War, Japan remained a good trading partner for Iran and continued to import Iran's oil. However, the Japanese companies decided to retreat from the IJPC project in October 1989 due to Iraqi air strikes on the plant. After the end of the Iran-Iraq War, Japan became one of the major exporters to Iran along with Germany and Italy. Japan also held its number one ranking in terms of imports from Iran until 2006.

19

In August 1996, the US Congress enacted the Iran and Libya Sanctions Act in order to impose economic sanctions on foreign companies and persons exporting goods or technology that would enhance Iran's and Libya's ability to explore petroleum resources and acquire weapons of mass destruction. In spite of American pressure, Japan maintained good terms with Iran as a large-scale importer of Iranian oil. In October 2000, Mohammad Khatami paid a visit to Japan, the first visit of an Iranian president to Japan. Iran offered Japan the primary mining rights for the Azadegan oil field, one of the world's largest proven oil reserves at 26 billion barrels, located in southeastern Iran near the border with Iraq. The Azadegan oil field had been expected to serve as a suitable alternative to the Khafji oil field in Saudi Arabia. The Khafji oil field had played a key role in securing a stable long-term supply of oil, but Japan's contract had expired in 2000. The Ministry of Economy, Trade and Industry of Japan (METI) and Inpex Corporation, Japan's top oil exploration company, moved ahead with the Azadegan deal. However, disclosure of Iran's secret nuclear program in 2002 and the inauguration of Mahmoud Ahmadinejad as president in 2005 brought about the reduction of



the Japanese share in the Azadegan oil field from 75 percent to 10 percent by 2006 and then complete withdrawal in 2010. Instead, China National Petroleum Corporation (CNPC) won a deal to develop the north and south Azadegan oil field while taking ownership of a 70 percent stake of the north Azadegan oil field in 2009.

President Ahmadinejad proclaimed Iran's right to peacefully develop nuclear technologies and resumed uranium enrichment in 2005. The Security Council has



since then imposed four sets of sanctions to persuade Iran to halt its nuclear program: in December 2006, March 2007, March 2008 and June 2010. On December 31, 2011, the US government enacted the National Defense Authorization Act for Fiscal Year 2012, which aimed to prevent foreign financial institutions from dealing with their Iranian counterparts. The Bank of Tokyo-Mitsubishi UFJ, which settled about 80 percent of the Japanese oil trade with Iran's central bank, was fined \$8.6 million by the US Treasury Department in December 2012 due to this law. The New York State Department of Financial Services imposed an even heavier punishment, a \$250 million fine, on the bank in June 2013.

While the Japanese government publicly declared its intention to act in accordance with the UN resolution, it also made an effort to maintain its relationship with Iran. On the one hand, it attempted to diminish the Iranian share in its oil imports in order to attain exemption from the US obligation to completely stop imports of Iranian oil. Iran accounted for 15.6 percent of Japan's total crude oil imports in 2003, but its share gradually declined to 9.5 percent in 2010, 8.5 percent in 2011, and 5.1 percent in 2012 (Figure 1). Iran was the third largest oil exporter to Japan after Saudi Arabia and the United Arab Emirates from 1995 to 2008. After 2009, Qatar replaced Iran in that position. Meanwhile, the Japanese government began to provide sovereign insurance to tanker operators that imported Iranian oil after European Union sanctions were introduced in 2012 in concert with American policy. The sanctions barred coverage for 95 percent of the global fleet because London-based underwriters arrange most of the insurance. Japan's efforts to maintain positive relations with Iran are partly explained by loans extended to Iran by the government-affiliated Japan Bank for International Cooperation. Tokyo is afraid that the abrupt termination of Iranian crude imports could make its \$3.7 billion in loans unrecoverable.

Japan was one of the most important exporters to

Iran until 2006. Since then, China has become the largest exporter to and a major importer from Iran. The UAE, Turkey, South Korea and India strengthened economic ties with Iran in the 2000s in contrast to Japan and the EU. The UAE, where many Iranian people and companies operate and engage in financial transactions, has also emerged as an important business partner for Iran. Japanese electric appliances and cars have enjoyed overwhelming popularity among the Iranian people. However, reasonably-priced Korean cars and electronic goods responsive to local needs have penetrated the Iranian market of late.

There is an increasing expectation among the Japanese that the new Iranian President Hasan Rouhani can amend deteriorated relations between Japan and Iran. Japan's future policies toward Iran will continue to be significantly influenced by those of the US. The Obama administration seems to be cautiously engaging Iran in contrast to the Bush administration's failure to negotiate with the previous reformist President Khatami. Overt messages from the US government to support the reformists in Iran have often led to adverse results by giving the conservatives excuses to suppress the reformists as "Western spies." On July 31, 2013, the Republican-led House of Representatives passed a bill that seeks to strengthen economic sanctions against Iran despite concerns expressed by the Obama administration and some Democratic congressmen that the measures could interfere with nuclear negotiations. The Obama government is obliged to deal with the Iranian problem carefully, by monitoring Iranian attitudes, volatile Middle Eastern political situations, and domestic politics, including the Israel lobby. Although trade between Japan and Iran has decreased significantly in recent years because of difficulties relating to monetary transactions, over thirty companies still maintain their branches in Iran in the hope of eventually operating in a better business environment. This indicates that the Iranian market, with its rich human and natural resources, is still attractive to Japanese companies.

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Gulf-Asia Relations:

Noteworthy Developments – March 2013 to Sept. 2013

March 7

Parliamentary Vice-Minister of Foreign Affairs of Japan Dr. Toshiko Abe attended the Fifth Friends of Yemen Ministerial Meeting in London. At the meeting, he announced that during 2012 Japan had granted aid worth \$34.2 million to overcome the current political, economic and humanitarian challenges faced by Yemen.

March 11

Fujitsu announced the start of a new venture to monitor air and water pollution in Saudi Arabia following an agreement between MODON and Fujitsu, Saudi Arabia.

March 17

Tonen General Group and JGC Corporation were identified as one of the leading pre-qualified bidders to become the main operator of the oil refinery in Iraq's Nasiriyah oil field.

March 19-22

Prince Salman bin Hamad Al Khalifa, the Crown Prince of the Kingdom of Bahrain, was in Japan on an official visit. During the visit, the Crown Prince met with Japan's Prime Minister Shinzo Abe on the occasion of commemorating 40 years of diplomatic ties between Japan and the Kingdom of Bahrain. Prime Minister Abe mentioned that the Kingdom can play an important role in furthering GCC-Japan FTA negotiations.

March 20

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

March 22

It was announced that Iraq has become the third largest supplier of oil to the Asian region, especially to China, India and South Korea.

March 27

Japan's crude oil imports from Iran dropped one third in February 2013 compared to the same month in 2012 due to tougher western sanctions. Imports by Japan, Iran's third biggest crude buyer, are expected to continue to decline. Meanwhile, China, as Iran's biggest crude oil customer, imported 521,330 bpd in February 2013, up 81 percent from the same period a year earlier.

March 29

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

April 2

Chinese President Xi Jinping met with Prince Khalid Sultan, deputy defense minister of Saudi Arabia in Beijing. President Xi and the chairman of the Central Military Commission reviewed the growth of China's ties with Saudi Arabia. According to President Xi, stronger military cooperation between China and Saudi Arabia would benefit bilateral relations and further world and regional peace and stability.

April 4

Saudi Aramco raised the official selling price (OSP) due to China's continuing strong economic growth as well as the Asia region's expanding industrial output.

April 11

Japan's Foreign Minister Fumio Kishida sent an official message to Dr. Ali Akbar Salehi, Iran's Minister of Foreign Affairs, expressing sympathy and condolences to the families of all the victims of the earthquake that occurred in southern Iran on April 9.





April 22

Japan's Foreign Minister Fumio Kishida held a meeting with Shaikh Abdullah bin Zayed Al-Nahyan, Minister of Foreign Affairs of the United Arab Emirates. The two ministers discussed the furthering of cooperation for the stable supply of energy to Japan from the UAE.

May 1

Japan's Prime Minister Abe arrived on an official visit to the Kingdom of Saudi Arabia where he held meetings with all leading Saudi officials. He was met on arrival by Crown Prince Salman bin Abdulaziz Al-Saud. During a press conference, the two countries stressed their deep concern about the rapidly deteriorating humanitarian situation in Syria and agreed on the importance of coordinating with international organizations to resolve the issue.

May 2

During his visit to Saudi Arabia, Japanese Prime Minister Abe stated that Japan and Saudi Arabia had entered a new era of relations which would reflect Japan's radical shift from its historical energy relations to synergy of relations. Mr. Abe stated that the stability and prosperity of the Middle East region are very important not only for Asia but also for the world. The Japanese government has decided to provide the region with financial assistance amounting to \$2.2 billion to support peacebuilding efforts in the region. The prime minister also expressed appreciation for Saudi Arabia's well-balanced energy policy and hoped that Japan would play a stronger and more important role in the Gulf region.

May 3

Japan signed a civil nuclear cooperation agreement with the UAE during PM Abe's visit to Dubai. The agreement would allow the transfer of Japan's technology and expertise in nuclear and renewable energy to the UAE. The agreement was signed by Prime Minister Abe and His Highness Shaikh Mohammed bin Rashid Al-Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, at a ceremony in Zabeel Palace, Dubai.

May 16

It was announced that the treaty between Kuwait and Japan for the prevention of tax evasion and avoidance of double taxation would become effective from June 14, 2013. The treaty promotes and protects the two countries' bilateral investment activities and assets.

May 18

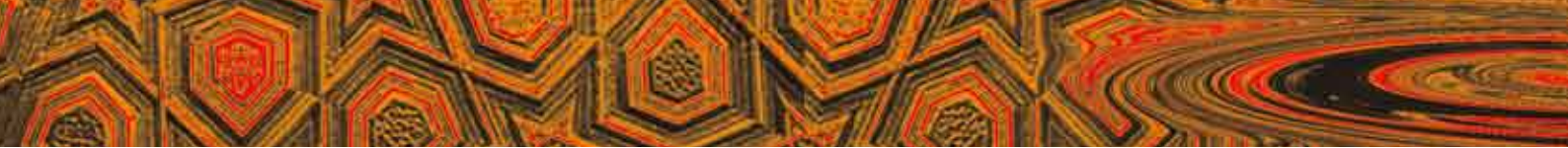
Chinese President Xi Jinping met with Saudi Arabia's Foreign Minister Prince Saud Al-Faisal in Beijing. President Xi mentioned that Sino-Saudi bilateral relations would be continued with long-term perspectives in mind. Xi said that China is willing to enhance communication and cooperation with Saudi Arabia to maintain peace and stability in the region.

May 27

The UAE and India discussed the importance of raising investment profiles between the two countries and agreed to expedite the long-awaited Bilateral Investment Promotion & Protection Agreement. Indian Finance Minister P. Chidambaram met General Shaikh Mohammed bin Zayed Al-Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, as well as Shaikh Hamdan bin Rashid Al-Maktoum, Deputy Ruler of Dubai and UAE Minister of Finance, in order to enhance bilateral relations. The Indian finance minister also held meetings with the head of sovereign wealth funds of UAE for a discussion on the scope for investing in India's infrastructure sectors and government and corporate bonds.

June 1

Japan's External Trade Organization (JETRO) announced that the value of two-way trade between the GCC countries and Japan grew 12.3 per cent in 2012 to \$182.13 billion compared to \$162.23 billion in 2011. Japan's exports to the GCC countries grew 27.1 per cent to \$24.94 billion in 2012 from \$19.63 billion in 2011 while its imports from GCC countries rose 10.2 per cent from \$142.60 billion to \$157.18 billion. Saudi Arabia was Japan's largest trading partner in the region and the top supplier of crude oil.



The value of Japan's trade with the UAE grew 5.2 per cent to \$52.9 billion in 2012, from \$50.3 billion in 2011. Japan's exports to the UAE increased by 19.9 per cent to \$8.96 billion and imports by 2.6 per cent to \$43.98 billion. The UAE was Japan's largest export destination among the GCC countries in 2012, with a share of 35.90 per cent of Japan's total exports to the GCC.

Japan's trade with Qatar, the third-largest trading partner of the Asian nation in the GCC, surged 19.82 per cent to \$37.4 billion in 2012 from \$31.2 billion in 2011. Trade with Kuwait increased 17.96 per cent to \$17.1 billion in 2012, compared to \$14.5 billion in 2011. Japan's trade with Oman grew 31.5 per cent to \$10.5 billion in 2012, the highest growth in Japan's trade with any GCC country. Trade with Bahrain increased 7.26 per cent to \$1.3 billion in 2012 in spite of a decline in Japan's import of mineral fuels from that country.

"The high growth in Japan's exports to the GCC countries was mainly attributed to the reconstruction and rehabilitation of vehicle and vehicle parts production facilities in the earthquake and tsunami-hit areas of North-east Japan, and partly to the gradual strengthening of GCC economies that were earlier weakened by the bad effects of the global financial crisis of 2008," JETRO said. Japan's major exports to the GCC in 2012 were motor vehicles, machinery and equipment, electronics, iron and steel materials, rubber products, plastic products and textiles. The moderate growth in the value of Japan's imports from the GCC countries was the result of an increase in price as well as the volume of mineral fuels that Japan imported during the year. Japan experienced increased demand for mineral fuels to substitute the lost electric power caused by the shutdown of nuclear plants across Japan after an earthquake and tsunami hit the country in March 2011.

Japan's motor vehicle exports to the GCC surged 46.1 per cent to \$14.7 billion in 2012 from \$10 billion in 2011. This increase was against a 13.7 per cent decline in 2011 compared to the exports in 2010. The

share of motor vehicles in the total exports to the GCC rose to 58.8 per cent in 2012 from 51.1 per cent in 2011.

Crude oil remained the dominant commodity of Japan's imports from the GCC, accounting for 74.4 per cent of the total imports. Including petroleum gases and other petroleum products, the share of mineral fuels reached 98.9 per cent of the total imports in 2012.

June 8

China's crude oil imports from Iran rose 11 percent during the period between January and April 2013 to reach 400,000 barrels in the first four months of 2013.

June 10

According to Aramco, the sharp increase in China's and India's Gulf oil consumption would outpace any future supply and growth of Saudi oil production. China will increase its oil use by as much as two-thirds and India by more than double between now and 2030.

June 17

The Japanese government issued a statement following the presidential election of Iran stating that Japan hoped that Iran's administration under newly-elected President Hassan Rouhani will interact seriously with the international community towards a peaceful resolution of the nuclear issue as a responsible member of the international community.

June 20

India cut its Iranian oil imports by more than 40 per cent in the first five months of the year, replacing the crude with shipments from Venezuela, Iraq and Oman, and pushing Iran down four places to seventh among its suppliers. India's imports of Iranian oil for May dropped 12.2 per cent from a year ago to 213,500 barrels per day (b/d). This underlined the effectiveness of US and European sanctions aimed at Iran and its energy sector.

August 1

According to Hani Al Hamli, Secretary-General of the





Dubai Economic Council (DEC), China is the second-largest economy in the world and one of the leading strategic partners of the UAE and Dubai, and there are broad prospects for strengthening this partnership to serve the development programs in both countries. He also stressed that the DEC seeks to deepen the partnership between Dubai and China by proposing mechanisms and policies and collaborating with the various economic sectors in China.

August 10

According to the “EU-GCC Invest Report”, Saudi Arabia’s business environment has remained stable and is producing flourishing development. Saudi Arabia even managed to reverse the FDI performance to potential ratio so prevalent in its peer countries in the region. Having been assessed by UNCTAD to be of potential rank of 27th and 29th in 2008 and 2009, it outperformed expectations with the 31st and subsequent 19th places in 2009 and 2010.

In the Ease of Doing Business Ranking, Saudi Arabia is in the top 10 in four out of 10 measured categories – Registering Property (1st), Dealing with Construction Permits (4th), Starting a Business (10th) and Paying Taxes (10th) are the strong competitive advantages of Saudi Arabia.

August 13

Qatar and Singapore have explored various “synergistic opportunities” since Qatar is the Singapore’s 21st largest trading partner (total trade volume is S\$ 9.8 bn). The bilateral trade volume between the two countries has increased by more than 26 percent during 2010-12 due to Singapore’s strategically important position as a hub for Qatar’s LNG to the region.

August 15

Japan External Trade Organization (JETRO) has announced that GCC’s exports to Japan dropped by 8 percent in the first half of 2013 after they soared to their highest level during the year 2012.

August 25

The Prime Minister of Japan, Shinzo Abe, visited

the Kingdom of Bahrain and met King Hamad bin Eisa Al-Khalifa and Crown Prince Salman bin Hamad Al-Khalifa. A joint statement was issued stressing the importance of strengthening the comprehensive partnership toward the prosperity and stability of the two countries.

August 26

During his visit to the Gulf region, Prime Minister of Japan Shinzo Abe met Shaikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, Deputy Amir and Crown Prince of the State of Kuwait. The two leaders discussed the prospects of closer collaboration between the two countries.

August 29

Qatar’s Minister of Energy and Industry Dr. Mohammed bin Saleh Al-Sada announced that the volume of trade between Qatar and Japan has reached more than \$37 bn in 2012. While addressing the opening of the Qatar-Japan Business Forum in Doha on August 28, he also said that Japan is Qatar’s largest trading partner. In addition, Qatar is Japan’s second largest LNG supplier as well as third largest supplier of crude oil.

September 4

According to a statement issued by Singapore’s Ministry of State for Trade and Industry, to increase the effectiveness of the GCC-Singapore Free Trade Agreement (GSFTA), Singapore and Qatar have agreed that the two countries must further deepen their economic relations. Besides GSFTA, Qatar and Singapore are currently negotiating the Investment Guarantee Agreements (IGAs) to further strengthen bilateral relations. Total bilateral trade between the two countries rose from \$5.5 bn in 2009 to \$6 bn in 2010. Qatar is ranked third among Singapore’s trading partners in the GCC and 21st among Singapore’s trading partners worldwide.

September 7

Masahiko Komura, special envoy of the Prime Minister of Japan Shinzo Abe, met Mohammad Javad Zarif, foreign minister of Iran. According to the Minister, Iran hopes that newly-elected President Hassan Rouhani

will be able to strengthen bilateral relations between Japan and Iran.

September 8

Masahiko Komura, special envoy of the Japanese Prime Minister (as well as Liberal Democratic Party Vice President, Japan-Iran Parliamentary Friendship League chairman, and former Foreign Minister), visited the Republic of Iran and held talks with President Hassan Rouhani. They exchanged opinions about the international situation, including the nuclear issue and Japan-Iran relations.

September 14

During the 5th Asian Ministerial Energy Roundtable in Seoul, South Korea, Saudi Minister of Petroleum and Mineral Resources Ali Al-Naimi stressed the importance of promoting dialogue between the oil-producing countries and Asia's large energy consuming nations and mentioned Saudi Arabia's closer energy relations with Asian nations.

September 18

According to the 2013 Economic Freedom of the World Report, Oman is ranked the 26th most economically free country in the world. Hong Kong and Singapore have retained the top two positions in the report, followed by New Zealand, Switzerland, Australia, Canada, Mauritius, Finland, the United Kingdom and Chile completing the top 10. Within the GCC, Oman is the third most economically free country.

September 25

At the 32nd GCC Petroleum Cooperation Committee meeting, oil ministers in the GCC countries agreed to produce a follow-up report on the development of the United Nations Framework Convention on Climate Change as well as an updated summary of strategic petroleum policy.



The Gulf and Latin America: An Assessment of Expectations and Challenges

By: Alejandra Galindo

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Abstract: Since the last decade of the 20th century, there has been an increase in South-South trade, which is also reflected in the trade between the Gulf and Latin American countries. While trade between the two sides grew substantially during the last decade, there are also renewed attempts to cooperate in other fields. The opening of embassies in Latin America by the Gulf countries and vice versa in the last few years, direct flights between Brazil, Argentina and Venezuela to some of the capitals of the Gulf region, investments by the United Arab Emirates, Kuwait, Saudi Arabia and Qatar in some Latin American countries and the holding of the Arab-South American Summits starting from 2005, among other exchanges, reveal the growing convergence of interests between these two regions.

This volume discusses the different perspectives in the evolution of recent interests and issues at stake in this emerging relationship between the Gulf and Latin American countries.

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