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JAPANESE ENERGY SECURITY AND CHANGING GLOBAL ENERGY MARKETS:
*AN ANALYSIS OF NORTHEAST ASIAN ENERGY COOPERATION AND JAPAN'S
EVOLVING LEADERSHIP ROLE IN THE REGION*

Japan's Relations With Primary Energy Suppliers

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Introduction

Two very obvious facts dictate Japan's international energy security situation. Japan must depend upon foreign oil and gas now and into the foreseeable future. It imports approximately 85% of its energy needs, the highest percentage of any major industrialized nation. Secondly, this imported oil and gas will likely come in large measure from the Middle East and, to a lesser extent, Southeast Asia. In the words of then Industry Minister and later Prime Minister Nakasone following the 1973 oil crisis, "Oil is a critical resource for Japan and dealings in oil cannot be handled by individual Japanese enterprises or traders alone without the support of the Japanese government and its people. The Japanese government will involve itself in strong continuous petroleum diplomacy in the future."¹

This paper seeks to analyze Japan's relations with primary suppliers of oil and gas from Southeast Asia and the Middle East. In Southeast Asia, countries under consideration are Indonesia, Malaysia and Brunei, with the primary focus on Indonesia. In the Middle East, Japan has been an oil customer of almost all the region's producers, but Saudi Arabia and the United Arab Emirates have been of the greatest long-term importance. After providing a brief history of Japan's relations with these countries and regions, this paper will focus upon present and future problems Japan might have in maintaining oil and gas imports from these producers. Domestic issues within producer countries that could impede needed oil and gas exports to Japan include political instability, human rights abuses that could bring international reactions, and anti-foreign and particularly anti-Japanese sentiments. International considerations that could involve Japan are regional conflicts and international pressure, including boycotts and other economic restrictions on oil producers. Not discussed here in detail are sea-lane disruptions, which is the topic of another Baker paper.

A reoccurring theme in this analysis is that Japan has limited options for influencing domestic and international events related to energy in either Southeast Asia or the Middle East. Constitutional prohibitions against military activities, self-imposed

¹ Quoted in H.A. Al-Ebraheem, "The GCC and Japan: Past, Present and Future Relations: An Overview," Walid Sharif, Ed., The Arab Gulf States and Japan, London: Croom Helm, 198-, pp. 187-88.

limitations on employing economic power to achieve political ends and worries about adverse public opinion are among the forces that account for this lack of leverage.

Chapter I: Early Relations and Comparisons

When analyzing the history of Japan's relations with these two oil and gas producing regions, it is important to underscore the significant differences in length and depth of previous political and economic interaction. The Middle East was not a significant focus in Japan's foreign policy until the oil crisis of 1973 brought to the fore the country's energy vulnerability vis a vis that region. Prior to World War II, diplomatic interactions were limited and included minor initiatives with Saudi Arabia. Japan also maintained a legation in Cairo from 1936 until the outbreak of the war. Following resumption of full sovereignty after the Allied Occupation of Japan, diplomatic relations were inaugurated with Middle Eastern states, the last being Jordan in 1974. A variety of financial and cultural agreements were signed with many countries. However, bi-lateral trade was minimal in this early period and, as of 1972, only 0.8% of Japan's official bilateral development aid went to the Middle East.

Following the traumas of the 1973 oil crisis, Japan concentrated its efforts upon insuring continuous oil supplies from the Middle East. Tokyo began to develop means of buying oil directly from producers and a series of agreements were made with Kuwait, Saudi Arabia, the UAE and Iran. By the 1980s, energy imports from the Gulf had risen to approximately 23% of Japan's total imports and Saudi Arabia, Kuwait and the UAE had become major customers for Japanese goods.² At the same time, Japan was not a significant player in the region's volatile political problems. However, it later supported the Middle East Peace process through public statements and economic aid and was a major financial contributor to the efforts against Iraq during the Gulf War.³

This pattern of mild interaction contrasts sharply with Southeast Asia where Japan became involved with supporting nationalist movements at the beginning of the twentieth century. Tokyo perceived that it had vital interests in seeking the natural resources of

² See H.A. Al-Ebraheem, "The GCC and Japan: Past, Present and Future Relations: An overview," pp. 185-95.

³ See Courtney Purrington, "Tokyo's Policy Responses During the Gulf War and the Impact of the 'Iraqi Shock' on Japan," *Pacific Affairs*, pp. 161-181.

Southeast Asia prior to World War II and sought control over those assets through its occupation of the area during that conflict. After the war, Japan used its provision of reparations for losses during the conflict, allowing many of the newly independent countries of the region to gain an economic foothold. By the time the oil crisis of 1973 arrived, Japan had become the first or second economic trading partner of most countries in the region and began major investment programs in the area. While energy supplies from Southeast Asia have long been of interest to Japan, its economic involvement has been far more wide-ranging than in the Middle East, both in type and amount of product and investment.

However, as we shall assess in more detail below, there has been a common pattern of post-war diplomatic interaction between Japan and both regions. Post-war Japan sought to concentrate upon economic targets, leaving security protection to the United States while showing considerable reluctance to become involved in the domestic politics of other nations or in international conflicts. Major issues that brought other powers into various Asian crises were largely ignored by Tokyo until well into the 1980s. However, in spite of obvious reluctance to become involved, a combination of international pressures, a need to protect national interests, and a gradual change in attitudes has led Japan inexorably to more participation in world events. We will now look in more detail at Japan's relations with energy producing countries in the two regions and possible problems in energy supply.

Chapter II: Japan and Southeast Asian Energy Producers

A. Japan's Role in Southeast Asia

Although the three major oil and gas producers in Southeast Asia, Indonesia, Malaysia and Brunei are far less significant than the Middle East in terms of petroleum exports to Japan, Indonesia has provided over 40% of Japan's gas imports and the quality of its oil is generally high. Japan is the most important customer for crude oil exports for Indonesia and Brunei, but of the three, Indonesia has been the most significant overall trading partner to Japan. Indonesia is the fourth most populous country in the world, rich in natural resources and the home of a growing industrial base with relatively cheap labor. As such, it has been the focus of Japan's greatest attention in the Southeast Asian

region. From 1966 to 1998 Japan provided Indonesia with 3,432 billion yen in loans, 186.6 billion yen in grants, and 195.5 billion yen in official technical assistance. Trade has reached some \$15,000 million with exports to Japan doubling imports due to Japan's oil and gas demands. By the 1990s, Indonesia was first among states in the area in terms of Japanese direct investments and bi-lateral development aid.

Economically, Japan did not become heavily re-engaged in Indonesia or the rest of Southeast Asia until the 1950s, but by the 1970s it was the dominant player in both. Among the ASEAN countries it became the single largest trading partner of the Philippines, Malaysia, Thailand and Indonesia.

TABLE I
SHARE OF MAJOR TRADING PARTNERS IN ASEAN COUNTRIES TRADE 1975⁴

<u>Countries</u>	<u>(as a percentage)</u>	
	<u>Imports</u>	<u>Exports</u>
<i>Indonesia</i>		
Japan	31.0	43.9
USA	14.0	13.0
EEC	19.7	13.4
Singapore	7.2	8.9
<i>Malaysia</i>		
Japan	20.1	14.5
USA	10.7	16.1
EEC	20.4	23.3
Singapore	8.5	20.3
<i>Philippines</i>		
Japan	27.9	37.4
USA	22.2	29.8
EEC	12.5	16.0
Singapore	10.3	1.0
<i>Singapore</i>		
Japan	16.9	8.7
USA	15.7	13.9
EEC	13.0	14.0
Malaysia	11.6	15.0
<i>Thailand</i>		
Japan	31.5	27.8
USA	14.4	10.6
EEC	17.1	16.1
Saudi Arabia	9.0	
Singapore	2.0	9.1

⁴ Ruperto Alonzo, "Japan's Economic Impact on ASEAN Countries," *Indonesian Quarterly*, XV: 3 (July 1987), p. 478.

Japan also moved beyond trade to major investments in the area. In the 1990s four ASEAN countries were among the top thirteen recipients of Japanese direct overseas investments. This economic dominance in the region brought differing reactions over time and across countries in Southeast Asia. In the early 1970s there were anti-Japanese riots in Thailand and Indonesia that targeted Japan's growing economic role in their countries. Governments in the region sought to dilute Japan's dominance by attracting investment from other countries. Southeast Asians also objected to what they saw as Japanese barriers to imports from their countries. Tokyo was accused of raising obstacles to imports from Southeast Asia when it was forced to accede to American demands to reduce the unfavorable balance of trade between Japan and the United States.

However, over time, the importance of Japan as a model for modernization and as a necessary economic player in the region became increasingly accepted. For example, in both Malaysia and Singapore, government leaders proposed "Look East" policies in the 1980s. These programs presented countries like Japan, South Korea and the Republic of China as examples of state cooperation in economic growth, values of discipline and hard work, the retention of traditional cultural elements in the face of economic growth, and group cohesion. Some Indonesian intellectuals expressed similar views. As one observer noted at a meeting on Japanese-Southeast Asian relations, "The Indonesian regard Japan as a dynamic nation. Many fantastic changes have occurred which no other country can manage."⁵ As recently as 1999, Indonesian President Abdurrachman Wahib stated that without Japan his country could not have met its recent serious economic and political challenges. He further called Japan something of an elder brother from whom Indonesia could learn about democratization. Surveys in Malaysia, Singapore and Thailand in the 1990s underscored recognition among elites that Japan was essential for economic development in their countries. A poll of 100 young ASEAN leaders in 1994 showed that 82% liked Japan against 3% that disliked Japan.⁶ This perceived importance of Japan to Southeast Asian countries was reinforced during the recent Asian economic crisis when

⁵ Sumantoro, "Indonesian Japan Relation, Experiences and Prospects," ASEAN-Japan Relations, Bandung: Padjadjaran University, 1990, p. 250.

⁶ This Chunichi Shimbun poll is recorded in Mayumi Itoh, Globalization of Japan, New York: St. Martins Press, 1998, pp. 99-100. On the other hand, a poll of Japanese people found that a majority of respondents did not feel friendly toward the ASEAN state. Ibid., p.91.

ASEAN leaders were discouraged by slow domestic growth in Japan and publicly worried over its impact upon their own economies.

While Japan remained the dominant economic player in Southeast Asia during most of the second half of the twentieth century, it was careful not to become engaged in political issues in the region until the 1980s. This policy was based upon the recognition of possible negative reactions abroad due to Japan's historical wartime involvement in the region, a general reluctance within the Japanese populace to become a political or military player on the world stage, and a focus upon economic goals. In the early decades after the war, the Bandung Conference of Afro-Asian States was a symbolic example to many Southeast Asians of this major economic focus. Despite the fact that most of the independent states of the two continents were represented by their rulers or foreign ministers, Japan sent a minister responsible for economic affairs. Similarly, Japan did not play an important role in the independence movements of Southeast Asia (it was under the American occupation during most of that period), did not participate actively in the long Indo-China conflict, and remained generally neutral regarding other international and domestic issues in the region. Japan's post Vietnam War position was posited by former Prime Minister Fukuda Takeo. The so-called "Fukuda Doctrine" stated that Japan did not seek to become a military power, that it would promote closer economic, social and political ties with ASEAN (the Association of Southeast Asian States), and that Japan would work to form constructive relations with the three Indo-Chinese communist regimes and bring them into cooperation with ASEAN states. Tokyo first became engaged politically when it suspended aid to Vietnam to support ASEAN efforts to pressure Hanoi to get out of Cambodia. Later, Tokyo cautiously took part in the attempts to sustain the fragile Cambodian democracy in the 1980s and supplied unarmed personnel to the multi-national group sent to monitor elections. Even that foray into international engagement was met with considerable negative reaction at home particularly after violence against Japanese participants.

B. Past Obstacles To Good Relations

At the beginning of the new century several previous obstacles to close relations with Southeast Asian states no longer appear to be as salient as they were in the past. The

end of World War II was almost fifty-five years ago and some of the antagonisms related to that period are not particularly pertinent to many in the young population of the region. In general, Southeast Asians have reacted with less volatility to statements by Japanese politicians regarding World War II than have Japan's neighbors in Northeast Asia. There are variations in terms of age and country with older people and citizens of the Philippines and Singapore more likely to feel that Japan has not adequately regretted its acts during the war.⁷ Even at the beginning of the new millennium there were articles and editorials in Singapore newspapers calling for expressions of regret from Japan regarding activities during the war. Secondly, the fear of Japanese economic dominance, while still a worry among some, is mitigated by the recognition that foreign investment is essential for economic development. Again, the recent economic crisis reinforced the importance of Japan to the economic health of the region. There remain nationalist sentiments that oppose foreign economic power, but these are far less salient than in the decades after the Southeast Asian nations achieved independence.

There are no longer any major international conflicts in Southeast Asia endangering the flow of oil and gas or the producers themselves. In the past, the region experienced conflicts related to independence movements between the Dutch and Indonesians and French and Vietnamese, as well as post-independence disputes such as the so-called Konfrontasi between Malaysia and Indonesia and the long Indo China War. Now all of Southeast Asia belongs to ASEAN, which is attempting to reduce tensions in the region. There are minor territorial issues, but they show few signs of leading to international conflict. There are relatively minor problems rising from, at times, strained relations between Singapore and its neighbors⁸ and difficulties on the Myanmar-Thai border over insurgent groups in Myanmar. The only area of possible serious danger to this equilibrium is the South China Sea. The Baker Institute addressed this issue last year and the general view is that the likelihood of full-scale hostilities is unlikely, although problems could arise from unplanned violence-latent situations. Questions also have been

⁷ *Ibid.*, pp. 102-03.

⁸ See Fred R. von der Mehden, "Energy And Conflict In Contemporary Asia," Houston: Baker Institute, 1999, p 4-6.

raised as to China's military capability to successfully control the area, even if it sought to launch such an effort.⁹

Sea-lane problems have frequently been raised. There have been recent cases of piracy targeting tankers as well as other shipping. If the Straits of Malacca were closed (most likely due to an environmental disaster involving a tanker), it would be possible for ships to use other routes through, or even around, Indonesia.

Finally, from time to time, fears have been raised regarding the dangers of a rearmed Japan, and references abound to the size of Japan's defense expenditures. However, other dangers have been perceived to be of a more serious nature. After the fall of Saigon, many Southeast Asians saw Japan as a possible bulwark against Vietnamese power and as a country that might fill the vacuum left by what was believed to be American disinterest in the region. There has also been a far greater worry about China, initially because of its public support of communist insurgency in the region and later due to questions about Beijing's long-term goals. These attitudes toward China have been particularly prevalent in Indonesia, which did not have diplomatic relations with Beijing for decades after the communist supported coup effort in the mid-1960s. The weakening of worries about Japan as a military threat was illustrated during the 1980s. At that time, there were comments by both Thai and Singaporean officials that Japan's military build-up was not only largely benign, but that Tokyo could do more in strengthening the security situation in Southeast Asia. In addition, both the Thai and Indonesian military have sought to purchase military equipment from Japan, only to be rejected by the Tokyo government, which is opposed to establishing any form of military cooperation in the region.¹⁰ Some cynics have noted that fears of a reassertion of Japanese military power only appear to emerge from military sources during annual defense budget discussions.

All of this does not mean that Japan is not highly concerned with security issues in Southeast Asia. Tokyo has been strongly supportive of efforts to maintain the status quo in the region. Over the Cold War years, Tokyo expressed its gratification with the presence of the American military in Southeast Asia as a deterrent to possible communist aggression. More recently, it has perceived the US navy as protector of vital sea-lanes in

⁹ *Ibid.*, p. 10.

¹⁰ Chaiwat Khamchoo, "ASEAN Politico Security Relations in a Changing Southeast Asia," in ASEAN-Japan Relations, Bandung: Padjadjaran University, 1990, pp. 186-95.

the region. However, in recent years, the American factor and post-war reticence regarding extending military power has not deterred the Japanese government from closer military cooperation. In the late 1990s, there were exchanges of Defense ministers between Japan and Southeast Asian states as part of an effort by Japan to enter into defense dialogues throughout Asia.¹¹

Particularly troublesome in the past two decades, but not seriously affecting oil and gas supplies, have been charges of human rights violations in Southeast Asian states. This problem has forced Tokyo to face the economic and political implications of egregious policies by Southeast Asian governments. As both individual powers and international organizations have become more willing to become involved in attempting to do something about human rights abuses, there have been pressures on Japan and other states to agree to economic sanctions against regimes accused of serious infractions. In recent years conflicting voices regarding what role Japan should play in such instances have been heard in Japan. Some have argued that the country should look to a more positive foreign policy and end the perception of a Japan engaged in a single-minded economic approach. The more common rationale for Tokyo's present policies has been that by fostering economic ties and strengthening the economies of these states, Japan helps to provide the foundation to future democratic development (a view not dissimilar to Washington's explanation for its policies regarding China).

However, there have been international pressures for Japan to join other nations in ending human rights abuses in Southeast Asia. There have been demands for sanctions against Myanmar (Burma) and Indonesia in particular. The Myanmar case does not involve a significant energy producer. However, the reluctance of most fellow members of ASEAN to have non-regional powers interfere with the domestic politics of member states, does produce cross pressures between ASEAN and countries outside the region with human rights agendas. The perception of Japan as economically single-minded has led to criticisms from human rights advocates that Tokyo has been reluctant to weaken its economic ties with targeted states. In the case of Myanmar, it was criticized for not continuing to maintain economic sanctions against Yangon (Rangoon) after the 1988

¹¹ Zhao Dawei, Development of Military Security Strategy of Japan and its Prospects," International Studies, 7-8(1999), Beijing: China Institute of International Studies

military attacks on civilians and aborted elections of 1990. In Indonesia, it was accused of remaining silent too long over human rights abuses in East Timor. However, in the East Timor case, Japan's actions were little different than those of the United States or other powers. Tokyo also can point out that it has become an important economic contributor to Indonesian efforts to establish free elections and maintain its new democratic system. While this issue has not affected energy supplies, it does point out how Japan can become vulnerable to sanction policies of other states. It should also be noted that perceptions that Japan is not interested in pushing a human rights agenda abroad has resonated positively among some governing elites in Southeast Asia. Japan has generally escaped the strong criticism of perceived foreign interference in domestic issues involving ASEAN countries that has been directed against Western states.

C. Problems of Political Instability

Political instability of energy producers in the region remains a potential trouble spot for Japanese policy makers. At this time Malaysia and Brunei appear relatively stable. Recent elections returned Prime Minister Muhammed Mahathir and the ruling Barisan National coalition to power, and many knowledgeable observers believe that the present ruling coalition will be able to retain power into the foreseeable future. Brunei remains under the control of the Sultanate and its supporters with no dangers from elections or strong opposition parties. Pessimists point to the long-term problems that may face a post Mahathir Malaysia, renewed tensions within the Malay community, or the at times strained relations between Kuala Lumpur and oil rich Sabah. There are also cracks in the seemingly monolithic rule of the monarchy in Brunei. The economy has lagged behind population growth for more than a decade and foreign reserves have been needed to fund an annual deficit. A recent report of the Brunei Economic Council termed the situation unsustainable.¹² However, neither of these countries is presently a major supplier to Japan, contributing only a small percentage of its oil and gas imports respectively.

Indonesia, however, represents a more serious problem. It is Southeast Asia's only member of OPEC with a production quota in the late 1990s of 1.46 million barrels a

¹² New Straits Times, February 28, 2000.

day (which it did not meet) and approximately 5 billion barrels of proven reserves. In the early 1990s, Indonesia provided somewhat more than 10% of Japan's oil imports, although by 1999 it supplied less than 5 % of Japan's oil needs. Indonesia plays a far greater role in supplying LNG to Japan. In the late 1990s, Indonesia produced approximately 23.5 million tons of LNG annually with proven reserves projected from 77 to 138 trillion cubic feet.¹³ In recent years, Indonesia has met about 40 to 45% of Japan's LNG needs.¹⁴ There is a likelihood that Indonesia's oil production will decrease in the near future. Japan is seeking to reduce its LNG reliance on Indonesia and plans to cut LNG imports from Indonesia after present contracts run out at the end of 2004. However, Indonesia will remain an important supplier. This represents a problem, since Indonesia today is replete with the classic political risk dangers of radical regime change, political instability and internal regional conflict.

The political risk literature has long described radical regime change as a serious problem to foreign investors because of the possibility of governance by new rulers unfriendly to economic interests of a particular government, firm or sector. The recent fall from power of President Suharto in Indonesia shows a more subtle set of problems that now face those seeking to deal with Indonesia's oil and gas industry. The new democratic government of the Republic is not opposed to foreign capital and economic ties with other states, including Japan, although it does seek to end corruption. Former contract and agreements generally remain in effect, although some businessmen and bureaucrats accused of corruption are out of favor, possibly necessitating the development of new contacts.

Yet, the new government can mean difficulties in dealing with a less monolithic and stable political system. The Suharto regime, while showing cracks in its military bureaucratic façade in its last years, was able to provide a relatively high level of continuity to its energy policies. The legislature was weak and unable to affect seriously the economic sector and the regime was able to define the policies and administrative control of the Pertamina, the government oil and gas organization. Admittedly, Pertamina

¹³ ASEAN Energy Bulletin, Third Quarter, 1999, p. 8.

¹⁴ See Jody Ferguson, "Indonesia's Energy Strategy: How It Influences the Nation's Security Strategy," in Juli MacDonald and S. Enders Wimbush, Eds., Energy Strategies and Military Strategies in Asia, McClean, VA: Hicks & Associates, 1999, Appendix D, pp., 10-11.

was under a cloud of corruption accusations. These appear to be supported by a recent PricewaterhouseCooper audit that showed that in the two years ending March 1998 US\$2 billion was lost through “ineffectiveness”. The new regime has at its head President Abdurrachman Wahib (Gus Dur), a democratically oriented leader of the major religious party who is faced with personal physical problems and has been accused of fascilating on policy issues. There is a far more fractious party and legislative environment. The new democratic elections of 1999 ushered in a multi-party system with no one party holding a majority in the legislation, necessitation coalition politics. Parliament, which was generally a rubber stamp during the Suharto years, has flexed its muscles and sought to compete for power with the new President. In addition, the Vice President, who supposedly would take power if Wahib were unable to continue, is Megawati Soekarnoputri. The daughter of Indonesia's first President, Sukarno, Megawati has her father's characteristics of little background in administration and a strong nationalist streak. She is also the target of some members of parliament who seek too deny her succession to the Presidency if Wahib became incapacitated. This could further inflame her supporters who have gone to the streets in the past.

We need to add to this equation the still undefined future role of a military that in the past considered involvement by the armed forces in civil matters one of its normal and proper functions. At this time the top military command has publicly accepted the new system and rejected the idea of a coup, but the officer corps are not united on its support of the new democratic system or its policies. The new civil administration needs to be careful in dealing with a military that sees its political power waning, its role in the economy threatened and its budget severely limited (only 2% of the national budget). Even reformist generals worry about possible negative reactions. According to Lt. General Agus Wijoyo, a well-known reformist, “The government must know where it should stop with its authority, and not get involved in the internal management of the military.”¹⁵

In addition, the Indonesian economy is extremely fragile. Although low wages (12U.S. cents an hour for production workers in 1998) are attractive to foreign companies, there is a lack of capital, a seriously flawed banking system and civil unrest.

¹⁵ Bangkok Post, February 21, 2000.

Standard Chartered in January 2000 stated that country risk in Indonesia is higher than in the pre-Asian economic crisis period, even if the economy recovers.¹⁶ The DBS Bank Investment Quarterly of the first quarter of 2000 called the task of reconstruction formidable and was tentative in its belief that the new government could meet the challenge.¹⁷

All of this makes dealing with the new Indonesian political and economic system less predictable. It could mean more problems in gaining agreement on energy related legislation, given the multi-party nature of the legislature and the emerging competition between the executive and legislative branches of government. Unfortunately, this legislation is long over-due and necessary for Indonesia to sustain current oil and gas production levels. Without new contracts and enhanced recovery activities, the nation will not be able to replace declining production in mature fields. The future of Pertamina could change as elements of the legislature attempt to define and even control the administration and policies of that powerful organization. This may make it more difficult for Indonesia's oil and gas customers to assess long-term relationships with the new regime.

The more immediate concern to Indonesia's energy customers may be regional demands for autonomy or independence in present or potential oil and gas producing areas. Most of the country's oil producing sites are not in places that are now facing violent anti-Jakarta or ethnic-religious activities, although there have been problems on other parts of oil and gas producing islands. This has been true in Kalimantan and Sumatra where violence has generally been far from major areas of energy production. Other scenes of recent violence have been on islands where there is no oil production at this time, such as Ambon or East Timor, where the amount of offshore gas remains open to question, but is quite promising in the latter case.

Gas is another matter and is particularly pertinent to Japanese energy supplies, given the sizable LNG imports from Indonesia. One important region of major contemporary gas production and other areas of recently discovered reserves have demonstrated dissatisfaction with control from the central government. In 1997 the Arun

¹⁶ South East Asia Quarterly, Standard Chartered, January 2000, p. 6.

¹⁷ DBS Investment Quarterly, First Quarter 2000, p. 8.

field in Aceh produced 10.8 million metric tons (MMT) and a contract with Tohuko and Tokyo Electric (to expire in 2004) calls for supplying 3.5 MMT of LNG a year. In 1998 the Arun and Badak (in East Kalimantan) sent 18 MMT of LNG to Japan.¹⁸

Aceh has a long history of seeking autonomy or independence from the rest of the archipelago. It was a sovereign state for centuries and was only brought into the Dutch colonial system after a long war at the beginning of the twentieth century. In the post-independence era there was popular support for violent efforts to break away from the new republic. In recent years there has been continual conflict with the central government. During disputes in the last decade, Acehese leaders have accused the Indonesian armed forces of atrocities. Jakarta has not been prepared to meet the province's political demands. Troops were based on the property of the Arun fields. After his election in 1999, President Wahib called for a referendum on limited autonomy including the implementation of Islamic Syariah law and withdrew troops from the region. However, violence has continued, and the military has threatened to return to stop "terrorism." There have even been reports of Acehese separatists planning to make contact with Singaporean officials to arrange for the reconsideration of present gas contracts sanctioned by the Indonesian government.¹⁹

Japan's dependence on the Arun field may be declining and further exploration in Aceh has been stopped for security reasons. However, continued violence not only endangers that region's exploitation of its natural resources, but also presents a situation with more far ranging implications. Frustration with the situation could bring the military back into politics or lead it to reject civilian efforts to reach an acceptable compromise. There have already been student demonstrations against military actions. Moreover, there is growing frustration among prominent military officers over what they see as unfair charges regarding the manner in which the army has sought to contain the situation.

It appears that the vast majority of the populace of Aceh supports independence, but Jakarta's acquiescence to demands for independence or even significant autonomy would give strength to other areas that seek to weaken their ties to the central

¹⁸ United States Energy Information Administration, Indonesia, January 199, p. 3.

¹⁹ Straits Times, November 5, 1999.

government. Those dissatisfied include political elements on islands that have oil and gas production or potential including Irian Jaya and Kalimantan. As one recent observer of the situation in East Kalimantan remarked, "Everybody there is watching Aceh. They're thinking 'If the Jakarta government can't keep Aceh, then why should they keep us?'"²⁰ It is unlikely that the Acehnese will fully succeed in their independence efforts, and neither Kalimantan nor Irian Jaya has the military power or political consensus necessary to successfully confront the Indonesian military. A serious problem could be efforts to raise the percentage of revenue sharing from the present 1% for these resource rich provinces to 80%. The IMF has warned that this would make it very difficult for Indonesia to make its external obligations. Yet, the regional problems of the republic, combined with the lack of strong united government at the center, requires that Indonesia's foreign oil and gas consumers watch the future with considerable care.

Whatever problems Indonesia may have, Japan's ability to use the leverage of its strong economic presence in the Republic to influence matters is quite limited, even if it sought to do so. In a paper prepared for the Japan Policy Research Institute, Andrew Macintyre of the University of California San Diego argues that Indonesian policy makers see little leverage available to a Japanese government that does not seek to employ its economic power into political policy goals.²¹ He persuasively posits this relative lack of influence on the following grounds:

1. The bilateral relationship is very thin. In spite of statements such as the Fukuda Doctrine, there has been little bi-lateral interaction, even at the socioeconomic level. Even cultural ties remain minimal.
2. Indonesia does not see Japan as a security threat and does not see conditions that would lead to a re-emergence of a Japanese military expansionist policy.
3. Unlike other powers, Japan has not sought to pressure Jakarta on human rights issues.
4. Tokyo is not perceived as employing its economic power to achieve political goals.
5. Indonesians do not believe that Japan has a strong cohesive foreign policy toward Southeast Asia.

²⁰ *Financial Times*, December 9, 1999.

²¹ Andrew Macintyre, "Can Japan Ever Take Leadership?: A View from Indonesia," Working paper Number 57. Japan Policy Research Institute, 1999.

Macintyre concludes this assessment by stating that, “ Contrary to the popular image of Japan as an economic juggernaut rolling through Asia, at least as viewed from Jakarta, Tokyo appears curiously passive and sometimes even timid rather than overbearing or formidable.”²²

Chapter III: Japan and Middle Eastern Energy Producers

A. The Role of Oil

While Southeast Asia is today a marginal oil and major LNG supplier to Japan, the Middle East is today's dominant oil source and an important future supplier of LNG. By the end of the twentieth century Japan was importing about 80% of its oil from OPEC, with the vast majority of that from the Middle East. Projections show that this dependence will increase over the coming decades. As the table below shows, Saudi Arabia and the UAE supplied the bulk of that region's exports to Japan

TABLE II

JAPAN NET OIL IMPORTS 1990 and 1998
(Million barrels per day)

	<u>1990</u>	<u>1998</u>
Total Net Imports	5.239	5.645
Imports from OPEC	4.062	4.675
Imports from Persian Gulf		
Total	3.394	4.322
Bahrain	.037	.015
Iran	.385	.761
Iraq	.146	.000
Kuwait	.291	.510
U.A.E.	1.032	1.488
Qatar	.263	.361
Saudi Arabia	1.240	1.185
Imports from OPEC		
Africa	.011	.000
Imports from OPEC		
South America	.011	.000
Imports from OPEC		
Far East (Indonesia)	.682	.369

²²Ibid, p7.

Given this heavy dependence upon Middle Eastern oil, Japan has several important security concerns, most of which are similar in character to those in Southeast Asia. However, specific aspects of these issues also obviously differ because of the particular political environment of the Middle East. Again, Tokyo must consider security problems related to disruptions of supply due to: 1) domestic issues in individual Persian Gulf states, 2) possible international conflict and 3) limitations to access due to sanction policies by single states or transnational organizations. As previously noted, sea-lane interdiction will not be discussed in detail in this paper, although international conflict can obviously lead to that as a problem as well.

B. Issues of Domestic Political Instability

Japan, the United States and Europe have all displayed a common interest in maintaining a peaceful environment in the Middle East. American oil imports from the region are small. However, its economic and strategic interests are similar to those of Europe and Japan, although differences exist over specific policies.²³ In all three, concerns exist over fundamental problems within various Gulf States, which could lead to domestic turmoil. Problems highlighted include lagging structural economic growth outside the oil industry, the existence of large ineffective state sectors, major income disparities, a growing and frustrated middle class, active Islamic movements, unemployment, poor performance in economic reform programs, a sharply expanding population, and ethnic and religious differences that have frequently led to violence. These difficulties exist within political structures that have often displayed a lack of flexibility when faced with opposition. While some states, such as Bahrain, Kuwait, Qatar and Iran have recently showed signs of more openness, most Gulf states remain tightly controlled.

These internal problems could ultimately lead to deterioration of the status quo and possible radical change in government in states in the region. There is a long history of dire predictions of the demise of political systems in Saudi Arabia and other smaller Gulf States. In the past twenty-five years expectations of the fall of Gulf regimes have

²³ Anthony Cordesman, "The United States, Japan, Europe and the Middle East," Washington, D.C.: CSIS Middle East Studies Program, 1999.

been unfounded, with the exception of the overthrow of the Shah of Iran. Even in that case, the flow of oil to Japan and Europe was not seriously curtailed by the new regime. It is also worth noting, as we did in an earlier study of the Gulf, that to this point there have not been serious long-term disruptions of oil supply arising from domestic terrorism, except in Algeria. Today, European states, the United States and Japan are cooperating in intelligence efforts to control terrorist activities, although this does not preclude future problems.

However, it is worth considering briefly three worst-case scenarios that could effect production and distribution over a longer period of time. Not very probable, but possible could be the rise to power of a "Taliban type" regime in a major oil producing state with strong anti-western proclivities. Certainly there are groups in the Gulf region with strongly held views supporting radical political change based upon Islamic principles. A lack of structural reform and continued disparities could reinforce their cause. In such an instance it is at least possible that a radical government might be willing to hold oil hostage to other domestic or international concerns, affecting export levels.

More likely could be something similar to the present Indonesian situation, which could lead to increased uncertainty and instability. If, as opposition groups aspire, traditional authoritarian regimes in the Gulf were replaced by more democratic forces, there could be serious political strains within the new government. Already, democratization in Kuwait has thwarted government initiatives towards privatization of Kuwait's oil upstream sector. Many commentators have argued that the fall of the present system in Iraq could leave a country vulnerable to serious internal divisions and efforts by neighbors to gain control of coveted oil rich border territories. In the case of Saudi Arabia a new more democratic environment might reopen regional differences, particularly arousing unrest in the Hejaz and Shiia in the Gulf region. The vast majority of Saudi oil production comes from areas mainly populated by Shias. If disenfranchised, such groups could disrupt output. It could provide a divided government, like that of Indonesia today, which might have difficulty in implementing domestic and international policies including oil arrangements. Finally, Saudi Arabia, similar to most of the smaller Gulf States, has no real experience with democratic pluralist systems, possibly leading to a long period of political learning and instability. Anthony Cordesman argues that the

United States, Japan and Europe have been shortsighted and too focused upon immediate security concerns and have not given sufficient consideration to the need for serious structural economic and social reform.²⁴

A final possibility could be the development of a populist type of government similar to that of Venezuela. This scenario would be characterized by a regime that could weaken the ability of the government to efficiently and economically manage its resources. Populist policies inhibited oil investment efforts and drained dollars from the oil sector, leading to a decline in exports.

Japan, on its part, has traditionally followed a policy of normalization and the development of cordial relations with the Persian Gulf states. After the energy crisis of 1973, Tokyo entered into a series of cultural agreements, but the depth of these commitments was somewhat shallow. This period also saw the development of academic study on the Middle East coming from Japanese institutions. Japan also expanded its development aid, although this support has averaged only about 6-7% of Japan's total overseas development aid (contrasted to over 50% to Asia and over 10% each to Africa and the Western Hemisphere). While Japan has argued that its aid is meant to provide peace and security to the region, it is directed toward poorer countries based upon their perceived need. Thus, development aid to the region has gone mainly to non-oil producers such as Egypt, Syria and Jordan. While technical assistance has been provided to Saudi Arabia and other oil producers, Tokyo states that their wealth means that they should be excluded from financial aid.²⁵

There has been a major increase in Japanese exports to the oil-rich countries, although Japan's balance of trade with them remains adverse. Japan is only second to the United States in exports to Saudi Arabia, reaching over \$2.702 billion in the mid 1990s. However, Japan, like the other major powers, has not sought to influence the aforementioned domestic structural problems that could lead to future political uncertainty. This is not simple because Japan has little leverage to influence the Kingdom's internal situation. Such an effort would also run counter to Tokyo's post-war international position and Japanese public opinion. Some might point to the failure in

²⁴ Ibid.

²⁵ Japanese Ministry of Foreign Affairs, "Japan's Economic Cooperation in the Middle East," Tokyo, 1999.

early 2000 of Japan to maintain its Arabian Oil Company drilling rights in Saudi Arabia as an example of such weakness.

C. The Arab-Israeli Issue

In the past several decades, three international issues have been most salient to Japanese oil security in the Middle East; the Arab-Israeli question, Iraq's relations with its neighbors, and international sanctions policies. The Arab Israeli conflict has presented Japan with two intertwined problems. There has been the danger that relations between the parties could deteriorate into violent conflict that would destabilize the region and perhaps limit oil supplies, at least temporarily. Secondly, the animosity between Israel and the Arab states and other Muslim countries has presented Japan with a dilemma as to how to deal with Israel. Too close ties with Israel could lead to negative relations with oil producing Muslim governments and possible future limitation of supply. On the other hand, Tokyo recognizes that a solution to the situation is necessary for long-term peace in the area and also does not want to antagonize Israel's close ally, the United States. Thus, Japan has attempted to walk a fine line in the region.

When Japan regained full sovereignty in 1952, Israel was the first Middle Eastern state to be recognized by Tokyo. A legation was opened in Tel Aviv the next year and the mission was upgraded to an embassy in 1963. However, prior to the 1973 oil crisis it can be argued that Japan did not have an overall policy toward the Middle East. After the oil shock of that period, Japan broke with American policy and basically took a "pro-Arab" stance. Tokyo called for the return of territories occupied by Israel. In a famous statement the Chief Cabinet Secretary Nikaido Susumu warned, "The Government of Japan will continue to observe the situation in the Middle East with grave concern and, depending on future developments, may have to reconsider its policy towards Israel."²⁶ The desire to maintain oil supplies led Japanese officials to make numerous public statements supporting the Palestinians. Fears of the Arab Boycott led Japanese firms to exclude Israel from their economic activities.²⁷ By the 1980s Tokyo again began to revise

²⁶ Quoted in Nobuo Asai, "Walking a Tightrope in the Middle East," *Japan Quarterly*, 38(October-December, 1991), p. 408.

²⁷ See *Ibid.*, pp. 407-15 and Kurt Radtke, "Japan-Israel Relations in the Eighties," *Asian Survey*, XXVIII: 5(May 1988), pp. 426-40.

its policies to a more balanced position. This stance was developed as the Arab Boycott appeared less important and the oil glut of the period eased Japanese fears of a loss of supply.

By the 1990s, Japan developed a policy toward the Arab–Israeli conflict that appears to reflect a realistic assessment of changing relationships between the contending parties and the limited role Tokyo can and should play in the situation. Another major Arab boycott reminiscent of the early 1970s appears remote, given divisions within AOPEC itself. The Arab Boycott is no longer a major obstacle to trade and investment, perhaps symbolized by the opening of an office in Tel Aviv in 1998 of Japan's foreign trade organization JETRO. The evolvment of the Palestinian Authority and negotiations between Israel and the Palestinians has allowed Tokyo to take the high ground. Japan continues a long-standing policy of supporting Palestinian self-determination and independence. However, it also backs the continuing Middle East peace process and provides economic aid to the Palestinians while excluding financial aid to Israel on the same basis it denies aid to rich Arab oil producers. After the Oslo accords of 1993 Japanese firms entered the Israeli market. By 1997 Israel had become the fourth largest market in the Middle East for Japanese products.²⁸ Tokyo even agreed to provide a contingent of its Ground Self-Dense Force and other personnel to the United Nations Disengagement Observer Force on the Golan Heights. In sum, if the peace process continues to progress, Japan has hopefully found a way to inoculate itself from the dangers perceived in the decades after 1973.

D. International Conflict in The Gulf

The second major international security fear for the Japanese in the Middle East has been the outbreak of conflict in the Persian Gulf region. Such conflict could result in higher insurance rates for transporting oil and gas, temporary or long-term interdiction of shipping, and the destruction of production and distribution systems. All of these elements were present during both the Iran-Iraq War and later Gulf War. Even though Kuwait, Iraq and Iran exported less than 5% of Japans oil imports in the years prior to the outbreak of hostilities, these conflicts were taken quite seriously by Tokyo. During the

²⁸ MEED, November 28, 1997, p. 12

1980s Tokyo had attempted to play a moderating role and maintain friendships with both Iran and Iraq. It did not voice the same opposition to the new Islamic regime in Iran as did the United States and there were laudatory statements about the modernizing nature of the regime of Saddam Hussein.²⁹ Such positions reflected Japan's commercial interests. The Iran-Iraq conflict influenced Japanese perceptions of Gulf security. While the war gave credence to the view that the cohesion among oil producers seen in the 1970s was no longer in place, it also reinforced perceptions of vulnerability given the destruction of oil facilities and other activities endangering oil.

However, it was the Gulf War that brought into question the foundations of Japan's defense diplomacy.³⁰ A combination of perceived constitutional barriers, a reluctant public opinion, and parliamentary opposition restricted Japan's support to the international coalition against Iraq. Tokyo condemned the Iraqi takeover of Kuwait and gave diplomatic approval of military action against Baghdad. However, it was only prepared to provide financial support and that was criticized for appearing to be slow in coming. Even financial aid became a problem, as the government did not believe that the constitution would allow it to provide funds directly to the military effort. Tokyo initially sought to increase financial aid to U.S. troops in Japan as a surrogate for aiding military activities in the Gulf. Japan finally provided some \$13 billion dollars after heavy pressure from Washington. It did not feel that it could legally send even unarmed military personnel. These actions brought criticism from American politicians for what was termed "pocketbook diplomacy" and reconsideration in Japan of how its traditional policies would operate in a post cold war world. Public opinion surveys in the US showed a decline in respect for Japan, and it was not invited to participate in post-war victory functions. Changing international and domestic conditions did allow for the dispatch of minesweepers to the Gulf after the war. Playing a role in this change were low-key reactions by Asian neighbors, the desire for Japanese business to participate in reconstruction projects, a weakening of public and political opposition, and a desire to

²⁹ Business Japan, August 1980, pp. 57-61.

³⁰ For discussions of Japan in the Gulf conflict see Asai Nobuo, "Walking Tightrope," Op Cit, pp. 407-15; Courtney Purrington, "Tokyo's Responses During the Gulf War and the Impact of the "Iraq Shock" on Japan," Pacific Affairs, pp. 161-81.

placate international opinion.³¹ Yet, interviews with Japanese leaders following the conflict displayed a continued reluctance for Japan to extend its military role in the world and a general consensus that there were strong legal impediments to Tokyo doing any more than it did during the Gulf War.³²

Since the end of the war, Japan has walked a fine line between general support for diplomatic efforts to assure that Iraq eliminates its weapons of mass destruction while at the same time showing reluctance to back the apparent American desire to employ military means to assure Iraqi compliance. Government spokesmen have suggested that Iraq must be brought back into the world community and have publicly worried about Russia and France obtaining post-war contracts.³³ The Iraqi crisis brought considerable discussion of the future role of Japan in the new world order. There were those who argued that the Gulf Crisis showed that the United States could not carry on the conflict without Japanese funding, thus displaying international clout. Others, such as Courtney Purrington saw this as a major watershed that would lead Japan to reconsider its role on the international scene.³⁴ The major watershed, in fact, did not come about. Many Japanese academics and commentators noted the need for the country to enter into a role that is more independent of Washington. Some have offered the view that the interests of Japan and the United States differ in the Middle East.³⁵ However, Japan's ability to successfully maintain such a stance remains questionable.

It is difficult to see how Japan can develop much independent leverage with regard to international crises in the Middle East. Constitutional restrictions and public opinion severely limit any military options. Rising world oil demand could also restrain economic pressure, a weapon Japan has been reluctant to employ in the past. The employment of aid as a tool of foreign policy is limited in its effectiveness, although Middle Eastern states will continue to need industrial investment. While it can develop

³¹ Purrington, *Ibid*, pp. 168-73.

³² Tahara Soichiro, Interviewer, "The Invasion of Kuwait: Six Leaders Discuss Tokyo's Response," *Japan Echo*, pp. 13-18.

³³ *MEED*, November 28, 1997, p. 8.

³⁴ Courtney Purrington, "Tokyo's Policy Responses During the Gulf War," *Asian Survey*, XXXI:4 (April 1991), p. 323.

³⁵ Suvendrini Kakuchi, Politics-Japan: Iraqi Crisis Tests Foreign Policy Mettle," *IPS World News*, (February 2, 1998).

independent policies toward specific states in periods of relative peace, it must still rely upon the United States and other powers when conflict is imminent or present.

E. Problems With Sanctions

Japan has found international and national sanctions policies in the Middle East to be inhibitions to obtaining oil from the region, although targeted states have not been Japan's major suppliers. It has accepted United Nations sanctions against Iraq, although recently expressing reservations about their continuation. However, Tokyo has been more disturbed by U.S. Congressional sanctions with regard to Iran. Japan had been under considerable pressure from the United States to take a more active role during the Iranian hostage crisis. It refused to break diplomatic relations, as requested by Washington, but did finally embargo Iranian oil for a period, but for economic, not political reasons.³⁶ Japanese business suffered in the immediate period after the Iranian Revolution due to uncertain conditions and changed economic and political conditions in Iran. This situation was exacerbated by the Iran-Iraq War during which business stagnated and aid was suspended. After the conflict, aid was restored and Japanese exports to Iran increased, but not to the level of the early 1980s.

However, it was the enactment of the Iran-Libya Sanctions Act of 1996 that brought Tokyo into confrontation with the United States. Japanese business had already suffered from American sanctions and pressure. During the Reagan administration, Tokyo had been very unhappy with the sanctions against the Japanese project to join the Soviets to develop Sakhalin oil in its technology sanctions against the Soviet Union. It later was pressured by Washington to back off a second 45 billion yen to the Karun dam project in Iran. It was not until 1999 and the coming to power of a more moderate government in Teheran that Tokyo resumed loans for the project.

The 1996 legislation's most egregious section required the U.S. President to impose sanctions against foreign firms that invested \$40 million or more in a one year period on the development of Libyan or Iranian petroleum development. These could be waived in the national interest. Prior to the enactment of the legislation, Japan had

³⁶ For a detailed analysis of this period see Michael Yoshitsu, "Iran and Afghanistan in Japanese Perspective," *Asian Survey*, XXI:5(May 1981), pp. 501-14.

refused to bow to American pressure to join in an embargo on the two countries and after it became law Tokyo joined the European Union and other countries in sharply criticizing it. Japan declared the sanctions to be in opposition to both international law and the rules of the World Trade Organization. In the first major confrontation over the sanctions, the Clinton administration backed down and waived any actions against a French, Russian and Malaysian two billion-dollar energy deal with Iran. For Japan, this is just another example of how domestic and international politics of the United States can place it in a vulnerable situation vis a vis energy supply. Its special relationship with the United States makes breaking such sanctions policies a more sensitive issue than it does with Russia, France and Malaysia who may even find a certain pleasure in snubbing the United States.

Conclusions

Any analysis of future problems that Japan might face when dealing with oil producing nations in Southeast Asia and the Middle East must consider the interaction between conditions within the regions under consideration and Japan's domestic political environment. As we have noted, Japan faces different levels of difficulty in the two regions when it comes to the problems of domestic instability and international conflict. In Southeast Asia, international conflict appears to be of little importance as a threat to energy security, with the possible exception of the South China Sea question. The ASEAN states have solved most of their territorial disputes among their members. The major powers appear to have little interest in interfering in the region. The only exception to the latter problem in recent years has been in area of human rights, an issue that effects Japan's relations with non-Asian states far more than with ASEAN countries themselves. However, the human rights issue has few implications for oil security.

During the past two decades international issues have been the most serious impediment to Japan's oil security in the Middle East. The Arab-Israeli dispute appeared to necessitate a delicate balance between its close relationship with the United States and a perceived need to placate the Arab states. If the peace process continues, the issue will not be a major complication to Japan's future relations with the region. The Iran-Iraq conflict endangered the flow of oil through the Straits of Hormuz, destroyed production and distribution systems and underscored Japan's vulnerability. The Gulf War presented

Tokyo with the same aforementioned difficulties, but, in addition, illustrated the post-Cold War problems Japan faced when called upon to share the burden with other major powers in military conflicts. It also reinforced the fact that Tokyo was dependent upon the American armed forces when faced with armed aggression in the Gulf.

Sanctions have proven to be a more difficult problem in the Middle East than the have been in Southeast Asia. In the latter case sanctions have been more of a minor annoyance with regard to Myanmar. Japan's role with regard to Timor has been quite close to that of other major powers. In the Gulf, American sanctions and pressure have provided a more serious challenge, particularly when directed against Iran. While Tokyo has worried about sanctions formulated by its American ally, there is a major question as to how effective they will be in the future. The role of sanctions similar to the 1996 legislation may become less salient, particularly as they have now been successfully challenged by other countries.

In the domestic sphere there have also been major differences in the conditions facing Japan in the two regions. In Southeast Asia today we have a serious problem of national instability in a major oil and gas-producing nation. The new democratic system in Indonesia remains fragile, with a new President with personal physical problems, a fractured and fractious parliament and military that threatens to become re-involved in domestic politics. Perhaps more danger may come from regional differences in provinces that produce oil and gas. Demands for autonomy and independence threaten to expand beyond present hot spots such as Aceh and Ambon to oil producing areas such as Kalimantan.

The Gulf has not faced a radical domestic system change since the Islamic Revolution in Iran. However, as we have noted, conditions are present that could undermine present authority with possible serious implications to foreign oil and gas consumers. Radical change need not be an obstacle to continued supply as Japan found after the Iranian Revolution. While Japanese business suffered during the uncertainties of regime change, ultimately both Japan and the European states were able to continue to import oil from Iran. Yet, the Gulf states, and particularly Saudi Arabia, are considerably more important to Japan and there certainly exist structural factors that can undermine current regimes.

Given these developments abroad, what leverage does Japan have to influence either international or domestic problems? It does not have, nor does it seek, the military capability to project its power into Southeast Asia, let alone the Middle East. There is little possibility that political reality in Japan will change this situation. Traditional post-war interpretations of constitutional restrictions on military activity are changing, but there are important limits. In the past, public opinion has not supported military operations abroad that would entail fighting by Japanese military personnel. There is little probability of these attitudes changing in any significant manner. If conflict takes place in oil producing areas, Tokyo must depend upon the military power of others, and particularly the United States. While this reliance is no different than other Asian states, it will remain a sensitive issue for both Japan and China.

In the introduction to this paper, note was made of a statement by the Prime Minister Nakasone that “The Japanese government will involve itself in strong continuous petroleum diplomacy in the future.” However, the ability of Tokyo to implement such a policy is not great. Beyond military capability and constitutional restrictions, there are other problems. Japan has not been willing to employ foreign trade and investment as a political weapon, preferring to see them as long-term tools leading to stability and democratization. While Tokyo may see development aid as a foreign policy tool, countries like Indonesia do not appear heavily influenced by it. In the Middle East, aid does not go to major oil producing states. In Japan itself, the deregulation of energy and other elements of the financial structure will limit the government's ability to develop a coordinated energy policy. Rather than the long-term contract of the past, refiners may be more interested in shopping for the best price on the market.

This is not to state that Japan is without influence in the foreign policy arena if it so chooses. In recent years this would appear to elude Tokyo, as illustrated by its Gulf War diplomacy and difficulties in renewing its contract in the Neutral Zone. I would not go so far as Masaru Tamamoto of American University, who describes Japan as a “power without purpose” and “fundamentally incapable of responsible international leadership.”³⁷ Nor do I quite agree with his call for Japan to change its two foundations of past diplomacy, pacifism and political isolation. Given domestic political realities, any

³⁷ Quoted in Itoh, *Op Cit*, p. 184.

significant movement away from the pacifist approach is difficult to foresee and changes will need to take place incrementally over a long period of time. There already have been tentative efforts to become politically involved in East and Southeast Asia. Without challenging constitutional restrictions, there are economic weapons available. Now that the Japanese recovery apparently is underway, it may be possible to explore such possibilities. Not doing so will leave Japan's oil security dependent upon others.

In recent years there has been considerable discussion in Japan as to whether that country is an "ordinary nation", given its self-imposed limitations on military and political activity abroad. As Japan tentatively moves toward greater political engagement in Asia and re-enters discussions on Constitutional changes involving the self-defense forces, we await to see if it will decide to again become an "ordinary nation."³⁸

³⁸ For a discussion of the debate, see the Daily Yomiuri, February 19, 2000.

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