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## تحليل جغرافي - سياسي للعلاقات الاقتصادية بين دول مجلس التعاون واليابان

د. إدوين جوتيريز \*

مستخلص :

هدف هذه الدراسة هو تحليل العلاقات الاقتصادية بين دول مجلس التعاون واليابان، بالتركيز على العلاقات المتبادلة في التجارة والطاقة، والاستثمار والتقنية، ودراسة مزيد من توقعات التعاون الاقتصادي، وكذلك السمات الجغرافية - السياسية الأساسية التي تشكل هذه العلاقات. ويكمن الاستنتاج الرئيسي في أن استشراف مزيد من التعاون الاقتصادي يتوقف على تقليل الموانع التي تحد من سريان التجارة والاستثمار بين الطرفين. وتتمثل بعض هذه العوائق في: المخاطر السياسية، والاختلافات الثقافية، والمعوقات البيروقراطية، والحواجز التجارية. وكلا الجانبين سيستفيدان من توسع العلاقات الاقتصادية إلى المدى الذي لن تتحول فيه العلاقات الاقتصادية المتبادلة إلى لا شيء، بل إلى علاقة تكاملية متلى لكلا الطرفين.

انظر القسم الإنجليزي ص 20-52.

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TABLE IX

Constraints to Further GCC-Japan Economic Cooperation  
GCC Perspective

Constraint	Description
I. Business Approach	<ul style="list-style-type: none"> <li>● Japanese “consensus approach” to management is time consuming and delays decision-making</li> </ul>
II. GCC as residual market	<ul style="list-style-type: none"> <li>● Priority is given to larger markets when shipping merchandise (i.e., South-east Asia, China, USA, Europe). This results in past due orders for Gulf importers</li> </ul>
III. Technology transfer	<ul style="list-style-type: none"> <li>● Commercial interests tend to override technology transfer issues for the Japanese</li> <li>● In establishing joint ventures, production issues are given priority over technology transfer</li> <li>● A long-term technological commitment to the Gulf region is still lacking</li> </ul>
IV. Trade barriers	<ul style="list-style-type: none"> <li>● Custom duties, regulations, and import procedures hinder any expansion of non-oil exports from the Gulf</li> <li>● Japanese protectionist policies for key sectors keep competitive imports on check. But Japanese exports to the Gulf are granted easy access</li> </ul>
V. Trade Finance	<ul style="list-style-type: none"> <li>● Stringency regarding letters of credit</li> <li>● Advanced payment through a local bank of full coverage of the value of the shipment tends to be required by Japanese companies</li> </ul>

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**TABLE VIII**  
**Constraints to Further GCC-Japan Economic Cooperation**  
**Japanese Perspective**

Constraint	Description
I. Political risk II. Socio-cultural barriers III. Absence of Economic Integration	<ul style="list-style-type: none"> <li>● Need to enhance regional stability to support investment</li> <li>● Long-standing traditions and values hinder business</li> <li>● Small individual country market sizes</li> <li>● Lack of a customs union*</li> <li>● Absence of a free trade zone</li> </ul>
IV. Slowness in joining GATT**	<ul style="list-style-type: none"> <li>● Need to establish a common market with unified economic planning and policies</li> <li>● Subsidies remain for domestic industries</li> <li>● Service sectors remain heavily protected from foreign competition (banking, insurance, shipping, legal, construction)</li> </ul>
V. Deficient information on business opportunities	<ul style="list-style-type: none"> <li>● Poor dissemination of investment projects information</li> <li>● Insufficient information on local companies and investors to choose joint-venture partner</li> </ul>
VI. Lack of suitable information	<ul style="list-style-type: none"> <li>● Low quality macroeconomic data</li> <li>● Unreliable demographic and household income data</li> <li>● Unavailability of relevant market trends data (consumer spending, market assessments, and product level imports)</li> </ul>
VII. Inadequate legal infrastructure	<ul style="list-style-type: none"> <li>● Cumbersome legal framework to resolve business disputes</li> <li>● Absence/inefficient application of rules to protect trademarks, patents, and intellectual property</li> <li>● Investment regulations bar foreign investors from full ownership of projects</li> </ul>
VIII. Government administrative procedures	<ul style="list-style-type: none"> <li>● Cumbersome procedures to obtain certificates from government agencies (licenses, commercial registration, tax certificates, customs clearances, etc.)</li> </ul>
IX. High per unit production cost	<ul style="list-style-type: none"> <li>● Restrictive immigration rules for business purposes</li> <li>● Lack of trained and disciplined national labour forces at all levels increases operating costs</li> </ul>
X. Foreign investment	<ul style="list-style-type: none"> <li>● Poor initiatives by GCC governments to promote Gulf investment into Japan***</li> </ul>

\* There exist disparities in customs duties structure among the 6 countries in the region.

\*\* Except Kuwait, Bahrain, and the United Arab Emirates, which are members. However, the other GCC countries are at different stages in the way to gaining membership into GATT.

\*\*\* Gulf governments and investors have directed their investments to the USA and Europe.



and investment since many projects may become viable only when planned on the basis of a GCC free-trade zone.

**Trading Blocs:** While continuing to pursue closer regional cooperation with its Asian and Pacific neighbors (for instance, through the Asia-Pacific Economic Council - APEC), Japan remains critical of trading arrangements on grounds that they may create exclusive economic and trading blocs. Japan does not belong to any customs union, free-trade area or other trade agreement. This is likely to facilitate GCC-Japan economic cooperation, since the Gulf will not be constrained by having to satisfy a multiplicity of political, economic, commercial and technical conditions, such as in the case of dealing with an economic bloc (i.e., the EC).

**Constraints:** From the Japanese perspective, political risks are at the top of constraints to further economic cooperation with the GCC region (Table VIII). Stability and security in the region will increasingly become pre-requisites for further cooperation with Japan. A lower quality security environment will act as disincentive for further Japanese investment in the region [47]. Socio-cultural barriers constitute the second most important constraint. In this regard, the Japanese should try harder to understand the deep Arab values and traditions molded by the Islamic religion. From the GCC side, additional efforts need to be made to interact with Japanese business approach and cultural traits (Table IX). In summary, the GCC region is wealthy, but yet a developing one\*. It follows that infrastructural, administrative and legal deficiencies will persist. However, they will be less acute than in the past. The way to minimize constraints to economic cooperation is to address the issues hindering trade and investment between the two sides, and promote a better mutual understanding.

Japan has played a significant role in the development of the Arab Gulf region. Japanese firms have built many infrastructure projects and basic industries. Hopefully, this crucial role will be enhanced in all spheres, for the mutual benefit of both sides. After all, economic development cooperation should not be a fragmented zero-sum game, but an evolving integrated relationship leading to a pareto-optimum position for the parties involved.

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\* In fact, the region faces formidable economic development challenges in the 1990s and beyond such as: achieving economic integration, industrializing to compensate for a diminished role of oil, obtaining foreign technology, and developing skilled human resources [48].

economies of the rest of the world.

Japan will continue to face increasing difficulty as it is squeezed between America's continued but diminishing lead in high technology, and NIC/NEC\* inroads into mature industries such as shipbuilding, steel, cars, textiles, semiconductors, and consumer electronics [43], [44], [45]. Clearly, further Japanese industrial advancement will rest on its ability to generate continuous original technological change rather than imitating technology developed by others. Geo-politically, the most crucial question is whether this country will eventually evolve into a liberal self-sustained power as the USA becomes increasingly incapable of maintaining the Japanese neo-mercantilist economic base. Success brought on by the post-war transition to economic maturity by no means guarantees that Japan will continue to do well in the 1990s and beyond. Recent indications are not encouraging [46]. In all, the time has come for Japan to prove to the world community that it will not weaken without American support.

Within this economic and geo-political framework, the prospects for future GCC-Japan economic cooperation will gradually be shaped by four major issues: (i) an anticipated increased role of industrialization and a diminished importance of oil in GCC economies, (ii) economic integration initiatives in the GCC region, (iii) Japanese reluctance in joining trading blocs, (iv) removal of constraints to further cooperation.

**Industrialization:** The growth pole in the Arab Gulf will increasingly be changing towards deeper non-oil industrialization and its managerial and technical requirements\*\*. For the Japanese investors that venture into the Gulf, the rewards are not limited to only a generous package of fiscal and industrial infrastructure incentives, but also strategic location at the crossroads of a huge market spreading over three continents, opportunity for risk-sharing with a local partner, access to a pool of low-cost skilled Asian labor, and a commitment to free trade and monetary stability.

**Economic Integration:** Steps to create a common market in the region during the 1990s, will promote Japanese technology transfer

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\* NIC = Newly Industrializing Countries (South Korea, Taiwan, Hong Kong, Singapore, China).  
NEC = Newly Exporting Countries (Thailand, Malaysia, Indonesia, Phillipines).

\*\* These requirements include: business management know-how, strategic planning, market research (local, regional, and international), product development, manufacturing technologies, and industrial human resource development.

service industries [39].

In order to speed up aligning itself with changes in the international economy, Japan has undertaken structural economic adjustment steps since 1986. Four pillars underlie the countries' structural adjustment framework [40]: (i) transformation from export led economic growth to domestic-demand driven growth, (ii) improving market access and encouraging imports of manufactured goods, (iii) transformation of the industrial and trade structure, (iv) increased Japanese financial involvement overseas.

The domestic downturn that followed the collapse in 1991 of the "bubble economy" has prompted the Japanese government to devise economic stimulation packages to revive aggregate demand. These fiscal policy initiatives, with a cumulative price tag of \$442 billions since mid-1992, will result in more reliance on the domestic market and intra-industry trade for future economic growth. Although the government has slowly undertaken liberalization steps under constant pressure from major trading partners (the EC and the USA), most import-promoting actions have been minor with the result that Japan remains protectionist. The transformation of the Japanese industrial and trade structure has been driven by the goal of maintaining internationally competitive industries\*. Other factors have been external pressures for market openness, and the movement by leading Japanese corporations to increasingly invest in production facilities located in major developed-country markets to counter the threat of protectionism. The emergence of trading blocs is likely to shift the focus of Japanese international corporate investment towards facilitating access to export markets and away from seeking low labor costs as in the past\*\*. To fit in with the geo-politics of international economic relations in the 1990s, Japanese trade policies will be in terms of measures which are designed to promote accommodation with

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\* Relatively sound macroeconomic policies and undistorted prices will allow Japan and other key Asian exporters overcome the mistakes they made in excessive promotion of inappropriate heavy industries (i.e., resource-based activities of iron, steel, aluminium, chemicals, copper, and others). These "sunset" industries are not converted into public enterprises that drain the budget or sustained artificially through subsidies. These countries have shown flexibility in phasing out the losers so that scarce resources are released for more productive uses. Furthermore, those countries are gradually moving into high-technology and human capital-intensive industries and away from resource and labor-intensive ones [41].

\*\* Furthermore, as Japanese industry moves into the manufacture of higher value-added products, in selecting foreign locations Japan's overseas corporate investment will increasingly emphasize availability of highly skilled-labor rather than cost. In the future, the dynamics of exporting production facilities will be driven by availability of quality labor and not merely less expensive labor [42].

#### 4. Technology Transfer

The acute shortage of technology is the problem of the developing world at large. In the GCC region, early industrialization efforts in the late 1970s resulted in the importation of foreign technicians to operate industrial plants. And except for a handful of research centers, no other institutions existed for effective transfer of technology\*. Furthermore, for the centers currently existing, the links with industry and the rest of the economy are yet to be further developed [37], [38]. In this domain, cooperation with technology-rich Japan is crucial. The kind of technologies most needed by the GCC countries are those related to their survival and those enabling them to compete in global markets. Technology transfer from Japan should focus on four main areas: (i) water resources (resource management, environmental protection, and desalination), (ii) food production (automated cultivation systems, aquaculture), (iii) desert greenification (genetic engineering to develop desert resistant plants), and (iv) solar energy utilization. As local expertise is developed in these areas, the emphasis on technology transfer and R&D should shift to meet industrial needs. Technology transfer can be achieved through the establishment of joint research and development programs between scientific institutions in Japan and the GCC\*\*. In addition, technology transfer can be widened by encouraging small Japanese firms to enter into technology-based joint-ventures with GCC companies.

#### VI. OUTLOOK FOR GCC-JAPAN ECONOMIC COOPERATION

Since the 1980s, the Japanese economy began to experience the "de-industrialization" which had been happening in other advanced countries. Capital and labor resources had started to shift from manufacturing into service industries. Japan is breaking away from the growth based on exports and moving more towards growth based on domestic demand. This trend has been shaped not only by the effect of the strong yen on the country's exports and the efforts to minimize trade frictions, but also by the structural shift in favour of

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\* A compounding factor has been the "transfer" (migration) of Arab Scientists to industrial countries (Arab brain-drain), see [36].

\*\* Prerequisites for the GCC region to achieve success in following such approach are: (i) designing an implementing a well-defined R&D master plan, directed to meet specific needs of public services, agriculture, industry, and other sectors of the regional economy, (ii) having a highly qualified pool of indigenous scientists and technicians in order to sustain such a process over the long haul.

majors have traditionally dominated the downstream markets\*, (iii) the intense competition among refiners in the local market making Japan a potentially unprofitable location for foreign companies, (iv) the relatively unsophisticated Japanese downstream sector which requires heavy investment in modernization and upgrading\*\*, (v) the complexity of doing business in Japan.

A tolerable level of GCC participation in Japanese downstream refining industry can be achieved through joint-ventures\*\*\*. A key condition of such associations would be the commitment by a GCC national oil company to supply a specified amount of crude to the refining segment of the joint-venture, covering its lifespan. This ensures an outlet for the GCC company and will guarantee security of supply for the Japanese downstream company\*\*\*\*.

In short, multipolarization of world trade in general and energy trade in particular, is likely to bring the Arab Gulf closer to the Asia-Pacific region. Direct GCC downstream investment in refining/marketing assets in Japan will consolidate the bilateral energy relationship, will give practical content to the concept of capital cross-pollination, and will allow Japan achieving its goal of energy security\*\*\*\*\*.

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\* CALTEX, SHELL, Mobil Oil, and British Petroleum.

\*\* Despite restructuring efforts, Japan lags far behind other industrial countries in deep conversion refining capacity (catalytic cracking and catalytic reforming) relative to simple atmospheric distillation capacity (i.e., in the early 1990s deep conversion capacity accounted for 71% and 50% respectively, of total refining capacity in the USA and the UK. For Japan it was only 27% [34]).

\*\*\* A joint venture between two companies may entail giving a 50% share of the refining capacity/distribution network to the foreign entity (a GCC national oil company) at the agreed price which reflects the value of fixed assets involved. In return, the foreign entity agrees to provide around 75% of the new venture's initial oil inventory and half of the net working capital.

\*\*\*\* A multi-billion dollar project for a 450,000 barrels per day joint-venture to refine Saudi Arabian crude oil at three refineries in Japan, was postponed in November 1993 due to differences in business strategy among the 3 Japanese partners (Nippon Oil Japan, Japan Energy Corp., and Arabian Oil Co. Ltd.). The venture also included building a new refinery in Kudamatsu, southern Japan. Since the effect of Japanese restrictive regulations on the import of petroleum products is to reserve the local market for domestic refiners, a stable and abundant supply of crude oil for the domestic production of refined products is needed. Hence, as GCC oil producers are seeking a stable consumer and Japan wants a stable source of supply, these kinds of joint-ventures have a big potential for mutual success.

\*\*\*\*\* However, in the next twenty years the issue of energy security is likely to become secondary to the question of global energy interdependence. Indeed, producers and consumers of energy have learned that it is mutuality and the dominance of economics over politics what is important. This learning process in itself, provides a new form of energy security [35].

Within the framework of GCC-Japan investment interaction, cross-pollination of capital is a key area. Namely, Japanese investments in the GCC energy sector should be matched by Gulf investment in Japan in both, petrochemicals and oil refining and distribution activities. Capital cross-pollination will facilitate acquiring a foothold in the huge Japanese energy market.

For the GCC, petrochemical-based equity investments in Japan are particularly attractive, given the high sensitivity of the Japanese petrochemical industry to feedstock costs. From the complementarity of relations standpoint discussed earlier, capital cross-pollination in petrochemicals would be mutually beneficial by allowing specialization in production and marketing between the two parties.

The potential downstream diversification of GCC oil refining and distribution activities in Japan, needs to be assessed within the strategy of a worldwide geographically distributed upstream-downstream reintegration of the oil industry led by OPEC countries [33]\*.

Since Japan is oil short, it will continue to be the leading importer of Gulf oil. And this presents an opportunity for GCC producers to acquire downstream assets in the Japanese refining industry. However, the following factors could hinder such initiatives: (i) the highly regulated Japanese energy market, with formal and informal barriers against foreign acquisitions\*\*, (ii) difficulties in capturing a significant market share since four oil

\* In this regard, the international business environment for energy products is undergoing a division into three fundamental production-consumption geographical circles: (i) The European/Commonwealth of Independent States (CIS) circle will tend to secure an increasing share of its energy needs from Norway and CIS countries. Reliance on GCC oil will possibly be reduced, (ii) The America's circle: North America is expected to secure its energy needs from Latin America through hemispheric trade agreements. The USA is the consumer market while Venezuela, Mexico and Canada are the major sources of supply. The recently approved North American Free Trade Agreement (NAFTA) is one major step in that direction, (iii) The Asia-Pacific/Arab Gulf circle: Arab Gulf oil will play an increasing role in fulfilling future energy needs of the rapidly expanding Asia-Pacific region. However, the Asia-Pacific region, which includes Continental China, will have to find a larger geographical circle to secure its future energy needs due to its overall shortage in energy resources. It is anticipated that competition among Venezuela, Mexico, and the Gulf countries to supply the Asia-Pacific region with oil, will intensify in the years to come. Clearly, the largest source of supply is the Arab Gulf. And any increased demand for oil in the Asia-Pacific region is likely to be met from those other sources. Japan and China, the major consumers in the region, are likely to play a major role towards Asia-Pacific/GCC energy cooperation.

\*\* Regulation of the Japanese refining industry has resulted in too much refining capacity and far too many service stations. Recent restructuring of the industry has involved the upgrading of facilities, and the reduction of surplus distillation capacity by elimination of unprofitable assets.

necessity by consistently keeping in mind short term return from international financial markets; and (v) selecting projects for import substitution on the basis of export potential rather than on the domestic need for the products\*.

Against the above background, Japanese corporations should consider the following actions to increase foreign direct investment into the Gulf region : (i) small companies should consider setting up manufacturing plants in the region under the form of joint ventures to promote their globalization strategy\*\* as discussed in Section IV, (ii) further joint-venture investments in petrochemicals should be geared to take advantage of complementary relations between both parties\*\*\*, (iii) the provision of business services to the region should be upgraded and expanded\*\*\*\*. Petrochemical joint-ventures in the GCC, based on the combination of Japan's advanced technology with the region's abundant hydrocarbons (in the form of oil, gas, and feedstocks), can serve as bases of operation for Japanese companies enabling them to develop new markets and keep up with competition. They would also increase GCC energy export opportunities by providing feedstocks at competitive prices for further processing into final products in Japan.

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to replace the dollar as the currency to pay for its huge annual oil bill. For the GCC countries, it would require some degree of economic integration with the Asia-Pacific region. Japan may not be interested in pursuing such a course of action in the short term, in view of the tendency for Yen appreciation and the related savings on its dollar-denominated energy import bill. As exchange rate considerations remain the overriding factor in determining consumer preferences in the GCC region, when the dollar depreciates against the Yen, the decline in Gulf purchasing power translates into a shift in import patterns toward dollar-based exporters hurting Japanese exports\*. In order to protect his dominant but eroding position in the region, Japan should seriously address the Yen Asia-Pacific monetary zone issue. Ultimately, Japan would have to re-evaluate its priorities, since such a proposal would boost the prospects for the yen assuming the role of a world key currency. And Japan has made it clear that it should share more equally with the American dollar in world trade and finance.

### 3. Investment

Comparative advantage signals that the direction for GCC economic diversification should be the manufacture of energy products and the development of energy intensive metal and mineral-based products out of iron, aluminium, copper, gold, and bauxite inputs. These kinds of industries provide great scope for backward and forward linkages. The most promising alternative is the downstream industrialization of oil resources (production of petrochemical products).

Yet acute constraints to any development effort in the direction of downstream industrialization remain binding: (i) scarcity of indigenous technological know-how; (ii) shortage of native skilled human resources; (iii) a weak relationship between development needs and investment strategy through the extensive use of investment appraisal techniques that do not reflect social needs\*\*; (iv) a tendency to look at industry as a low priority alternative rather than as a

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\* Although Japan remains the GCC major supplier, Japanese companies have avoided increasing their product prices in recent years and accepted lower profit margins in order to minimize the negative impact on their sales. However, as those corporations shift their export emphasis to higher quality products, the exchange rate impact on their sales to the region will be compounded.

\*\* Discounted cash flow methods should be reviewed to incorporate the impact of social aspects. An associated impediment, is the relative absence of true cost of capital figures that reflect domestic economic conditions rather than conditions prevailing in international capital markets.



## 2. Energy

The challenges involved in the GCC-Japan energy relationship will come from: (i) considering the feasibility of establishing an oil futures market for the Asia-Pacific region, and (ii) looking into an alternative oil monetary framework for oil transactions based on the development of a Yen Asia-Pacific Zone. Hence, the interaction between oil and the financial markets is likely to become stronger during the 1990s.

Regarding the oil futures market, oil trading by brokers at the New York Mercantile Exchange (NYMEX) has gained considerable momentum in orienting pricing in the industry\*. To an extent, NYMEX has replaced OPEC as the prevailing mechanism to administer oil prices. Hence, the Arab Gulf countries and Japan, should consider the formation of an energy futures market in the Asia-Pacific region, to cater to the needs of consumers and producers rather than speculators. This market should be longer term oriented, reflecting energy supply and demand conditions in the region. Thus, it would act as a regional price formation mechanism for producers and consumers. If such a market is established by Japan alone, the obvious constraint is that Japan can not provide a guaranteed supply of oil in the case of physical transactions. This constraint can be lifted with the cooperation of Gulf oil producers. The inclusion of natural gas trading could also be considered. In all, an Asia-Pacific oil futures market would serve as a hedging mechanism against sharp price fluctuations.

In the context of a multipolar world environment\*\*, cooperation between GCC countries and Japan on an alternative oil monetary framework for transaction settlement will promote the concept of a Yen-Asia-Pacific monetary zone, leading to an increase in the international use of the Yen. This depends on the willingness of Japan

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\* NYMEX is in essence a financial market where brokers and traders balance their positions and speculate based on expectations of future events. Any rumor could trigger a chain reaction in the market, sending oil prices up or down.

\*\* The world economy is moving towards multipolarization in trade, finance, and politics. In fact, there is a strong tendency towards the formation of a multiple currency system with three major trading blocs: (i) the EC Bloc, with Germany as its main engine of growth (Deutsche mark zone), (ii) the Asia-Pacific Bloc led by Japan (Yen zone), (iii) the Americas Bloc dominated by the USA (Dollar zone). Such trends are likely to intensify in the 1990s [30]. GCC exporters can take early advantage of such anticipated trends and accept payment in the above currencies according to the geographic distribution of their exports. Japan for example, would pay in Yen instead of dollar for its oil imports from the Gulf. This would provide oil exporters with a natural hedge against dollar exchange rate fluctuations in the long term, and will add flexibility to the placement of any surplus funds.

slowdown\*.

In the future, Japanese foreign investment will be promoted to achieve the following objectives: (i) strategic corporate tie-ups (globalization of inter-corporate cooperation in production and marketing will be emphasized to minimize risks due to lower investment returns and higher fundraising costs), (ii) internationalization of R&D (directing R&D investments toward the USA and EC, focussing on the product demands of local consumers), (iii) globalization of small business activities (small firms that do not follow the globalization of today's business environment will face tough conditions by staying in Japan, including labor shortages and the difficulty of raising capital), (iv) continued transfer of production facilities to China and ASEAN, not only as a result of cost competitiveness lost due to high costs in Japan [27], [28], but also to facilitate market penetration.

## V. GCC-JAPAN ECONOMIC INTERACTION

### 1. Introduction

GCC states are oil-rich countries enjoying high levels of per capita income. Hence, unlike low-income countries which seek to obtain development financial assistance, the interdependence GCC-Japan is carried out on a commercial basis through trade, investment and technology agreements. Opportunities for GCC-Japan economic interaction are based on three basic elements : Energy, Investment, and Technology transfer. Energy relations should be further developed by promoting bilateral investment opportunities, and technology transfer should be directed at meeting the socio-economic and production needs of the GCC region [29]. Both parties can develop a dynamic strategic alliance bringing prosperity to the Asia-Pacific Region at large.

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\* Other factors contributing to a slowdown in Japanese foreign investment in the 1990s are [26]: an increase in funding costs for new investment; declines in Japan's stock market making it difficult raising new equity-linked finance; high start-up expenses; the low profitability of foreign investment undertaken with the major purpose of circumventing protectionist barriers (potential or actual); a temporary pause in preparation for the integration of the EC market; completion of the first cycle of large-scale projects; and slow economic growth in host markets leading to worsening returns on investment for foreign affiliates (corporate earnings are likely to come under pressure from both, declining sales income and increasing depreciation costs from ambitious capital spending to build or expand overseas projects).

accumulated in the 1980s, partly in response to import barriers or pressures in foreign markets, and partly in an effort to restructure towards lower-cost production in the face of rapid appreciation of the yen between 1985 and 1988 [25]. By region, North America accounted for 44% of the stock of Japanese foreign investment in 1991, followed by Europe (19%), Asia (15%), and Latin America (13%). The Middle East share is a low 1%, heavily concentrated on non-manufacturing activities. Investments in the GCC region are around \$2.7 billions, accounting for 4/5 of Japan's Middle East investments. Three GCC countries represent 92% of Japanese investments in the region (Kuwait 56%, UAE 19%, Saudi Arabia 17%). Japanese foreign investment in the Middle East remains sluggish due to factors such as political risk and the limited size of the local markets (Section VI will elaborate on this issue). In addition, the region has been recently suffering from the worldwide slump in petroleum demand.

## 2. Future Trends in Foreign Investment

The expansion of Japanese foreign direct investment has significantly increased Japan's intra-industry trade since 1986. Foreign investment added to Japanese exports of capital goods, parts and other intermediate materials. Reciprocally, Japanese overseas affiliates have substantially increased their shipments to Japan, particularly consumer goods. In the longer run, foreign investment is expected to substitute for a significant share of exports from Japan. The substitution effect on Japanese exports, together with increased imports into Japan from foreign subsidiaries of Japanese firms, are expected to more than offset the export-inducing effect of foreign investment.

In spite of the generally high levels of Japanese foreign investment flows in the 1980s, the level of overseas production by Japanese multinational corporations remains low (less than 10% of their overseas sales). In view of the trend in Japanese corporations toward overseas production, renewed expansion could take place in the medium term. However, this would be at a more moderate pace than in the 1980s, in tandem with Japan's domestic economic

the Gulf. This should include more processed energy products (petrochemicals and downstream gas products), and light manufactured goods such as semi-finished metal products (engineering industries). The possibility of further opening the Japanese market to imports of Gulf industrial products should be seriously considered. So far, Japan's opening initiatives are primarily directed to imports from the USA and EC.

#### IV. JAPANESE PATTERN OF FOREIGN INVESTMENT

##### 1. Overview

Around 43% of the stock of Japanese overseas assets in 1991 (estimated at \$310 billions) was in real estate and services followed by 26% in manufacturing (concentrated in electrical machinery, transport equipment, and chemicals). An additional 21% was in finance and insurance (Table VII). Much of this massive investment was

TABLE VII

##### Stock of Japanese Foreign Investment By Region in 1991

Industry/ Activity	North America	Asia	Europe	Latin America	Oceania	Middle East	Africa	TOTAL
Electrical Machinery	8.1	8.8	7.3	1.6	0.6	0.4	0.1	6.6
Transport Equipment	3.7	3.6	3.2	3.2	5.2	0.1	0.3	3.5
Chemicals	3.5	5.6	2.4	1.9	0.7	32.9	0.4	3.5
Machinery	2.9	3.5	3.0	1.0	0.4	0.3	0.0	2.6
Iron & Steel/NFM*	3.1	5.9	1.0	5.1	2.5	1.9	2.2	3.3
Other	8.2	12.0	4.2	2.7	3.2	1.5	0.9	6.8
<b>Total Industry</b>	<b>29.6</b>	<b>39.3</b>	<b>21.2</b>	<b>15.5</b>	<b>12.7</b>	<b>37.2</b>	<b>4.0</b>	<b>26.3</b>
<b>Non-manufacturing</b>	<b>70.4</b>	<b>60.7</b>	<b>78.8</b>	<b>84.5</b>	<b>87.3</b>	<b>62.8</b>	<b>96.0</b>	<b>73.7</b>
Finance & Insurance	14.2	8.9	42.4	36.2	9.7	3.6	0.6	21.0
Commerce	12.5	8.0	11.3	5.4	8.9	1.3	0.3	10.1
Other**	43.7	43.8	25.1	42.9	68.7	57.9	95.1	42.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* NFM = Non-ferrous metals.

\*\* Includes mainly Real Estate and Services.

Source: Computed based on GATT data

### 3. Trade Flows

The GCC region enjoys a favourable trade balance with Japan, reaching \$16 billions in 1992. Over the 1988-1992 period the surplus increased by 66% (Table VI). The general slowdown in Gulf economic activity and the tendency towards Yen appreciation relative to the American dollar, are contributing factors to the favourable GCC trade balance with Japan. However, as the region enjoyed a more dynamic environment after the Gulf war, the trade surplus has experienced a declining trend.

**TABLE VI**  
**Japanese Trade With The GCC Region**  
**( \$ Millions )**

Year	Exports	Imports	Trade Balance
1988	6798	16399	- 9601
1989	5419	18856	-13437
1990	6045	25752	-19707
1991	7570	25432	-17862
1992	9666	25580	-15914

Source: Computed from Direction of Trade Statistics, IMF.

Trade flows between both sides are characterized by an unbalanced commodity structure. Japanese exports to the GCC, which represented less than 3% of Japan's total exports in 1991 cover a wide range of merchandise\*, but imports\*\* are confined to crude oil, and some petrochemicals, refined products, and primary aluminum (ingots). Japan is the biggest buyer of crude oil from the GCC. Imports of GCC oil account for around 60% of Japan's total crude imports. Regarding the GCC, imports from Japan represented 13% of total imports, and exports to Japan accounted for 27% of total exports. As a new generation of industries is being built in the region, based on the development of forward and backward linkages (i.e., petrochemicals and basic metals), import needs are gradually moving away from consumer products to capital and intermediary goods, in addition to technical and engineering services. The trade structure needs to be balanced by diversifying the product mix available from

\* These exports fall into three major groups: Home Appliances and electronics (TVs, VCRs, radios, stereos, and other), Motor vehicles (cars, trucks, buses), Machinery and metal products.

\*\* Japanese imports from the GCC accounted for 11% of total Japanese imports in 1991.

As to the regional composition of the Japanese trade balance (Table V), the overall surplus position is generated largely by trade with the developed world, followed by South-east Asia. The favourable trade balance with the USA is of a declining nature (-7% per year), reflecting the effect of import restraints, Japanese voluntary export controls, and foreign investment. The trade balance with ASEAN countries went from deficit to systematic surpluses since 1989, largely due to capital goods requirements associated with expanding Japanese foreign investment there. The systematic trade deficit with the Middle East is of an increasing nature (11% per year) because of energy products imports (mostly from the Gulf region).

**TABLE V**  
**Japanese Trade Balance Trend By Area**  
**(\$ Millions)**

Area	1987	1988	1989	1990	1991	Growth Rate (1987-1991)
<b>Developed World</b>	<b>71273.0</b>	<b>67062.04</b>	<b>60045.0</b>	<b>50648.0</b>	<b>60062.0</b>	<b>- 4.2</b>
USA	52090.0	7597.0	44942.0	40953.0	38221.0	- 7.4
EC	20023.0	22802.0	19762.0	18490.0	27366.0	8.1
Other	- 840.0	- 3337.0	- 4659.0	- 8795.0	- 5525.0	60.1
<b>Developing World</b>	<b>7126.0</b>	<b>10546.0</b>	<b>7227.0</b>	<b>8640.0</b>	<b>24901.0</b>	<b>36.7</b>
South East Asia	14355.0	19307.0	20610.0	28120.0	37366.0	27.0
ASEAN*	- 4006.0	- 1064.0	188.0	3714.0	5920.0	461.2
Korea	5154.013	3630.0	3567.0	5750.0	7729.0	10.7
Other	207.0	16741.0	16885.0	18656.0	23717.0	15.8
Middle East	-11020.0	-10164.0	-14495.0	-21459.0	-17019.0	11.5
Latin America	2405.0	984.0	0510.0	430.0	2955.0	5.3
Africa	1459.0	749.0	849.0	1532.0	1703.0	3.9
Other	- 73.0	- 330.0	- 247.0	17.0	- 104.0	9.3
<b>Socialist Bloc**</b>	<b>1307.0</b>	<b>- 45.0</b>	<b>- 2944.0</b>	<b>- 7139.0</b>	<b>- 7175.0</b>	<b>433.2</b>
P.R. of China**	849.0	- 383.0	- 2630.0	- 5924.0	- 5623.0	142.7
USSR*	211.0	364.0	- 3002.0	- 788.0	- 1203.0	-36.7
Other**	247.0	- 26.0	2688.0	- 427.0	- 349.0	135.6
<b>Total</b>	<b>79706.0</b>	<b>77563.0</b>	<b>64328.0</b>	<b>52149.0</b>	<b>77888.0</b>	<b>- 1.2</b>

\* Growth rate 1989-1991

\*\* Growth rate 1988-1991

Source: Computed based on GATT data

## 2. Regional Pattern of Trade

South-east Asia, the USA and EC remain Japan's largest trading partners, both for exports and imports. South-east Asia accounts for the largest share of Japan's imports (25% in 1991), followed by the USA (23%), and the EC (13%). The Middle East accounts for 12% (Table IV). But the regional pattern of Japan's merchandise exports has changed with South-east Asian markets accounting for 31%, and overtaking the USA (29%) as the major destination for the first time in 1991. The EC is next with 19%. The Middle East represented only 4% of worldwide Japanese exports. The surge in exports to South-east Asia (16% per year over 1987-1991) reflects both, strong economic growth in those markets and demand created by Japanese overseas investment. Europe is the second fastest growing destination of Japanese exports (12% per year) largely resulting from the trade effects of the German Unification.

**TABLE IV**  
**Japanese Trade By Area**  
(%)

Area	1987		1991		Growth Rate 1987-91	
	Exports	Imports	Exports	Imports	Exports	Imports
<b>Developed World</b>	<b>62.3</b>	<b>47.9</b>	<b>56.3</b>	<b>49.4</b>	<b>5.49</b>	<b>13.03</b>
USA	36.5	21.1	29.1	22.5	2.30	14.07
EC	16.4	11.8	18.8	13.4	11.93	15.82
Other	9.4	15.0	8.3	13.4	4.97	9.07
<b>Developing World</b>	<b>32.5</b>	<b>45.0</b>	<b>39.9</b>	<b>42.6</b>	<b>14.00</b>	<b>10.62</b>
South East Asia	23.1	25.8	30.6	24.8	16.07	11.08
ASEAN*	6.8	13.1	12.0	13.4	24.72	12.85
Korea	5.8	5.4	6.4	5.2	10.98	11.18
Other	10.5	7.3	12.2	6.2	12.28	7.61
Middle East	4.0	13.5	3.9	12.4	7.62	9.78
Latin America	3.8	4.3	4.1	4.2	9.93	11.54
Africa	1.3	1.0	1.1	0.8	5.43	6.89
Other	0.3	0.4	0.3	0.4	7.55	7.74
<b>Socialist Bloc</b>	<b>5.2</b>	<b>7.1</b>	<b>3.8</b>	<b>8.1</b>	<b>0.01</b>	<b>15.81</b>
P.R. of China	3.6	5.0	2.7	6.0	1.02	17.73
USSR	1.1	1.6	0.7	1.4	-4.70	8.98
Other	0.5	0.6	0.4	0.7	2.43	15.98
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>8.23</b>	<b>12.17</b>

\* Association of South-East Asian Nations (Philippines, Brunei, Malaysia, Indonesia, Thailand)

Source: Computed based on GATT data.

The major trend in the composition of Japanese exports has been the growth of capital goods induced by the rise in foreign direct investment in recent years. Japan's merchandise exports remain concentrated in areas in which it possesses a strong comparative advantage. In fact, 73% of exports in 1990 are accounted for by machinery and equipment (including ships and boats, Table III).<sup>\*</sup> Exports of consumer goods are becoming less important as offshore production has expanded.

**TABLE III**  
**Principal Exports of Japan**  
( % )

Code	Commodity *	1985	1990
	<b>High share</b>	<b>39.1</b>	<b>44.7</b>
732	Road motor vehicles	23.7	22.3
729	Electrical machinery NES**	5.4	7.8
719	Machines NES** non-electric	5.6	7.4
714	Office machines	4.4	7.2
	<b>Medium share</b>	<b>17.6</b>	<b>15.8</b>
724	Telecommunications equipment	7.0	6.2
891	Sound recorders, producers	6.6	5.0
861	Instruments, apparatus	4.0	4.6
	<b>Low Share</b>	<b>24.5</b>	<b>23.6</b>
722	Electrical power machinery, switchgear	2.5	3.2
711	Power machinery, non-electric	2.2	2.7
674	Iron/steel: plates, sheets	3.0	2.2
512	Organic chemicals	1.4	2.0
735	Ships and boats	3.4	1.9
718	Machines: special industries	1.7	1.6
931	Special transactions and commodities NCK***	1.0	1.5
715	Metal working machinery	1.5	1.5
581	Plastic materials, etc.	1.3	1.4
717	Textile/leather machinery	0.9	1.4
629	Rubber articles NES**	1.0	1.1
678	Iron/steel: tubes, pipes, etc	2.3	1.1
653	Woven textiles, non-cotton	1.5	1.0
862	Photo/cinema supplies	0.8	1.0
	<b>Principal commodities****</b>	<b>81.2</b>	<b>84.1</b>
	<b>Other commodities</b>	<b>18.8</b>	<b>15.9</b>
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>
	Total (\$ billions)	175.9	286.8

\* SITC categories

\*\* NES = Not Elsewhere Specified

\*\*\* NCK = Not Classified According to Kind

\*\*\*\* Categories accounting for 1% or more in 1990.

Source: Computed based on GATT data.

\* The high degree of export concentration is shown by the fact 5 categories represented 50% of total exports in 1990 (Motor vehicles, Electrical machinery, Non-electrical machinery, Office machines, and Telecommunications equipment).



**TABLE II**  
**Principal Imports of Japan**  
( % )

Code	Commodity *	1985	1990
	<b>High share</b>	<b>26.8</b>	<b>13.4</b>
331	Crude petroleum, etc.	26.8	13.4
	<b>Medium share</b>	<b>16.2</b>	<b>12.5</b>
332	Petroleum products	5.0	4.4
031	Fish, fresh/preserved	3.4	4.1
341	Gas, natural & processed	7.8	4.0
	<b>Low share</b>	<b>29.1</b>	<b>39.0</b>
841	Clothing not of fur	1.4	3.6
732	Road motor vehicles	0.6	3.1
321	Coal, coke, briquettes	4.1	2.7
729	Electrical machinery NES**	1.8	2.4
714	Office machines	1.2	2.3
011	Meat, fresh/chilled/frozen	1.4	2.1
684	Aluminium	1.5	2.1
719	Machines NES** non-electric	1.2	2.0
512	Organic chemicals	1.9	1.9
242	Wood, rough	2.2	1.9
283	NF*** base metallic ore	1.7	1.8
896	Works of art, etc.	0.2	1.8
667	Pearl, precious stones	0.6	1.5
281	Iron ore, concentrates	2.4	1.5
734	Aircraft	1.2	1.4
861	Instruments, apparatus	0.7	1.3
243	Wood, shaped	0.7	1.2
541	Medicinal products	1.0	1.2
631	Veneers, plywood, etc.	0.6	1.1
931	Special transactions and commodities NCK****	1.2	1.1
044	Maize, unmilled	1.5	1.0
	<b>Principal commodities*****</b>	<b>72.1</b>	<b>64.9</b>
	<b>Other commodities</b>	<b>27.9</b>	<b>35.1</b>
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>
	Total (\$ billions)	127.5	231.2

- \* SITC categories  
 \*\* NES = Not Elsewhere Specified  
 \*\*\* NF = Non-ferrous  
 \*\*\*\* NCK = Not Classified According to Kind  
 \*\*\*\*\* Categories accounting for 1% or more in 1990.

Source: Computed based on GATT data.

regulated so as to ensure stable marketing arrangements. Wholesale prices are controlled by MITI on a monthly basis, through approvals to engage in oil refining and notifications to import crude oil and processed petroleum products. These arrangements, together with MITI administrative guidance, have protected the Japanese petroleum refining industry by limiting imports of refined products to meet the gap between domestic production and consumption. This effectively, excludes import competition.

### III. GCC-JAPAN PATTERN OF TRADE

#### 1. Introduction

Japan remains the world's third largest trading country in terms of both, imports and exports, next to EC and the USA. However, lacking fuels and many raw materials, it remains highly import-dependent, and manufactured exports continue to be an important engine of economic growth. Continued higher export growth relative to imports\*, led to a considerable trade surplus of \$ 77 billions in 1991 (a nine-fold increase from 1981) equivalent to 2.6% of GDP. As a share of GDP, this level of surplus does not appear to be out of proportion relative to Japanese standards. In fact, it is well down the peak level of 4% of GDP in 1986 (\$ 82 billions).

Since 1985, the effects of yen appreciation, trade liberalization and the temporary raise of the "bubble economy" have brought major changes in the commodity structure of Japan's imports and exports. Rapid growth in Japanese intra-industry trade is yet another factor of change\*\*. In general, imports of consumer and capital goods have become more important during the post-1985 import expansion. In the same period, raw material imports (crude petroleum, natural gas, and coal) stagnated or declined, reflecting the change in Japan's industrial structure focusing more on high value added and energy saving. By product, Japan's most significant imports are crude petroleum (13.4%), petroleum products (4.4%), fish (4.1%), gas (4.0%), and clothing (3.6%, Table II).

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\* Over the 1981-91 period, export growth was 7.5% per year versus 5.1% per year for imports.

\*\* Intra-industry trade are exports of Japanese companies to overseas subsidiaries, and imports of Japanese companies from overseas subsidiaries.

**Ores and Metals [23]:** Japanese major metal industries are Fabricated metal products and, Iron and Steel. Lacking substantial natural resource endowments, Japan tends to be dependent on imports of processed and semi-processed ores and metal products. During 1990-91, Japan imported almost all its requirements of ores and metallic raw materials (\$42 billions). Since Japan is an efficient exporter of steel, tariffs on steel products are generally low (the range goes from free to 7.7%). Japanese steel exports have been heavily affected over the years by voluntary export restraints and anti-dumping actions forced by the USA and EC. Anti-dumping complaints from USA producers have claimed dumping margins ranging from 7.5% to 18.2% on hot and cold-rolled sheets, galvanized sheets and steel plates.

As to non-ferrous metals, Japanese activity here consists mainly of smelting of copper, zinc, and lead. Also included are fabricated metal products (cutlery, tools and containers), but not machinery. Imports of non-ferrous metals, particularly aluminum ingots, have reached more than 25% of domestic consumption. Ad valorem tariffs on imports of non-ferrous metals range from free to 10%. With the exception of aluminum and tin, most imports of non-ferrous metals (copper, nickel, lead and zinc) bear specific tariff rates. Tariffs on fabricated metal products range from free to 8%. The smelting industry in Japan has experienced a resurgence since 1990, due to increased demand from electrical users for copper, and from the automotive industry for zinc-plated sheets. Non-ferrous producers have reacted by expanding domestic smelting capacity, and increasing acquisitions of foreign mines. However, the international competitiveness of Japanese non-ferrous smelting industry, which is energy-intensive, is adversely affected by the high cost of local electricity.

**Energy Products [24]:** Having few petroleum resources, Japan is heavily dependent on imported petroleum raw materials. It is the world's largest importer of natural gas, and the second largest importer of crude oil. Tariffs for energy products vary from free to 20%. Low specific duties are applied to imports of crude petroleum. Japan's very limited crude oil production is of the heavy type, which is costly to refine. Thus, it is used as industrial oils by industries (i.e., power generation). Imported heavy fuel and raw oils, competing with locally-produced crude and not-intended for refining, are subject to tariff quotas that are set based on demand and supply projections. Imports of these products are thereby limited to meet shortfalls in domestic production. The Japanese petroleum industry is heavily

market remains open to foreign products only in areas where Japanese firms already have a comparative advantage, additional market opening steps have been gradually introduced.

In summary, four major sectors of the the Japanese economy remain heavily protected by a web of import barriers: (i) Heavy industries suffering from overcapacity and high raw material, energy, and pollution costs (shipbuilding, chemicals, fertilizers, naphtha, aluminum refining, ferrosilicon, copper and others); (ii) Agriculture and the retail-wholesale distribution system which are very labor-intensive and of low productivity; (iii) Government corporations which enjoy a legal monopoly; (iv) Consumer durables.

## 5. Trade Policies and Practices Affecting GCC Industry

From the standpoint of GCC-Japan trade relations, Japanese import restrictions on Chemical products, Ores and metals, and Energy products, are of interest\*.

**Chemical Products** [22]: This sector contains all industrial chemicals, including organic and inorganic chemicals, pharmaceuticals, fertilizers, cosmetics and plastic products. Japan is a net importer of chemical products. The core of the Japanese chemical industry (petrochemicals) relies heavily on imported petroleum feedstocks, particularly naphtha from the Middle East. Such imports enter Japan under an end-use tariff concession. Tariffs on chemicals range from free to 58%, but average a low 4%. Import quotas are maintained on several organic chemicals (i.e., DDT, Aldrin, narcotics), and pharmaceutical products for animal and human health. Most chemicals are subject to either health or security regulations. Domestic producers and importers of fertilizers are requested to have prior registration or notification of the quality of fertilizers to be produced or imported. Once the registration or in the case of imports, the notification of a fertilizer has been accepted, there are no restrictions on its production or importation. Regarding structural adjustment, excess capacity of about 10 million tons has been scrapped to increase the industry's competitiveness in the face of cheaper imports from South Korea and Taiwan. This has led to considerable rationalization in the sector.

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\* Japanese imports from the GCC are essentially energy-related. For instance, in the case of Saudi Arabia they average 98%, broken down as follows: crude oil (70%), oil products (13%), liquefied petroleum (13%), petrochemicals (2%). And to the extent that low duties are applied to the major import product (crude oil), then the effect of import restrictions on GCC trade is likely to be limited.

“keiretsu”\* support, Japanese exporters are able to hold off on profits until they have achieved a dominant market share, after which they tend to raise prices. In response to bilateral pressure from trading partners, Japan has demonstrated its willingness to manage sensitive exports through enacting “voluntary” export restraints arrangements on products where it is highly competitive (i.e., automobiles, machine tools, steel products).

#### 4. Imports Barriers

After joining the OECD in 1964, Japan has dismantled some of its more blatant tariff and quota barriers. It has now low tariff barriers and import quotas have diminished somewhat. However tariff escalation, where there is a sharp rise from raw material to higher processing stages, remains a strong impediment for foreign exporters from developing countries (i.e., bananas imported without packaging have a lower tariff than those packaged). But the most serious obstacle are the government-imposed non-tariff barriers (NTBs). These more subtle NTBs partially replace the former reliance on tariffs and quotas\*\*.

NTBs have been criticized by Western industrial countries in that they are based on policies specifically designed to impede, limit or hold up certain competitive imports. However, it is not always clear that the majority of NTBs are designed exclusively to work against imports. In a number of cases, these regulations affect both, local and imported products the same\*\*\*. Although the Japanese

\* “Keiretsu” is the name given to an industrial group consisting of a big bank, a number of companies involved in various government-designated growth industries, and a general trading company. The general trading company (“Sogo Shosha”) is the centerpiece for undertaking the international expansion of the group’s businesses (i.e., exports, overseas investments) [16], [17], [18]. The Keiretsu emerged after the pre-war, family-owned industrial conglomerates (“Zaibatsu”) were dismantled during the occupation purge of Japan [19]. Frequently, there is cross-shareholding among member firms. The largest industrial groups are Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Dai-Ichi Kangyo. And the major industries in which they operate are: automobiles, consumer electronics, cosmetics, pharmaceuticals, and photographic equipment.

\*\* Some of the most known NTBs are: strict quality standards enforcement, detailed inspection procedures at the product level (rather than sampling), cumbersome product testing procedures (i.e., drug testing must take place in Japan), a government-sponsored “sole agent system” conferring monopoly import privileges on firms that act as the agent of a foreign supplier, the “Keiretsu” system.

\*\*\* For instance, standards, inspection, and testing procedures apply equally to domestic and imported goods. In addition, any serious assessment of “Keiretsu” as an NTB needs to distinguish between preferential treatment among member firms of the group for product sourcing (which is trade restricting) and commercial decisions by which more competitive home products are preferred over imports. Factors determining a competitive lead can be price as well as non-price. For a further analysis of Japan’s institutional framework for import control see [21].

engineering R&D concentrated on innovation and design. The government assists industry in taking basic scientific discoveries made elsewhere and commercialize them, promoting cost reductions and quality controls. Official direct financial support to science and technology has emphasized quality rather than quantity of investments.

### 3. Export Promotion

Japan has promoted exports by a variety of direct and indirect means, including tax concessions on export income or sales, liberal depreciation allowances for exports, liberal write-offs for the expense of export development, preferential credit terms, comprehensive government export insurance, and export cartels. Most of these export promotion devices do not require elaborate explanation.

Japanese export resilience is best shown during periods of yen appreciation. A major explanatory factor for the growth of exports during times of yen appreciation is the willingness of exporters to accept significantly lower profit margins in an effort to retain market share. Other factors in countering the effect of exchange rate appreciation include reduced yen costs of imported materials, reduction of domestic production costs\*, overall productivity improvements in export-related industries, and an emphasis on production of higher value added products (especially capital goods to increase exports of equipment to Japanese factories locating abroad).

A by-product of Japanese industrial policy is to generate incentives for dumping products by promoting overinvestment in strategic industries and, in turn, overcapacity. Since government support depends on a firm's market share, firms tend to overinvest to achieve economies of scale and enlarge their market share. In recessions, a means of disposing excess production is dumping[15].

As a result of both, direct and indirect government encouragement, Japanese export offensives have swept through world markets since the mid 1950s\*\*. With bank finance and

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\* The surge in Japanese foreign direct investment during the mid-1980s, primarily towards Asia where labor costs are lower, was another element putting pressure on the rationalization of production costs.

\*\* These export offensives have been particularly effective in weakening foreign rivals because of the Japanese strategy where exporters concentrate on one sector in the lower end of a foreign market and through price cuts try to eliminate competition. After capturing a dominant market share of a lower end product (i.e., small cars, semiconductors), the Japanese then concentrate on the next product within the industry, thus advancing up the product scale until they dominate the entire industry. Japan's most successful industries, including textiles, steel, cars, consumer electronics (television, VCRs, etc.), and semiconductors have followed this pattern.

the quality rather than the quantity of government involvement that makes a difference in the Japanese case (i.e., the capacity to foster high industrial growth and a continual upgrading of the economy's technological base).

## 2. Industrial Policy

Throughout the postwar era the government consistently developed the economy around higher value and technology-based industries. These are textiles, cement, iron, steel, chemicals, shipbuilding, machinery, cars, mechatronics, consumer electronics, microelectronics, and frontier technologies (i.e., optoelectronics, biogenetics, aerospace, robotics, and super computers) [13]. Key interrelated elements in Japan's industrial policy are the targeting of strategic industries, and then their development by various policy instruments.

The Ministry of International Trade and Industry (MITI) is the most important executive agency for industrial policy implementation. MITI acts through a system of nurturing steps to develop an industry [14]: (i) selecting industries considered as strategic, (ii) granting licenses for the import of foreign technology, (iii) providing a diversity of incentives; (iv) creating a cartel to regulate competition and coordinate investment among the firms in the industry (Administrative guidance). The emphasis is on orderly expansion through managed competition\*. Firms are selected to join the fast-track expansion of investment usually by virtue of their current size; none is allowed to grow so rapidly as to bring confusion to the market. After a handful of major firms emerge within an industry, MITI makes the entry of new firms very difficult by controlling licenses to import technology and access to bank finance. MITI's policies have successfully guided investment towards increasing industrial capacity, productivity and exports.

Since 1973, as energy-intensive Japanese industries experienced serious declines in comparative advantage because of OPEC's price increases, the cartel emphasis has shifted from sunrise to sunset industries. The goal is to restructure or partially scrap the installations of industries plagued with severe overcapacity and financial distress. Another related vital industrial policy has been the promotion of

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\* Orderly expansion is a key industrial development policy instrument. It implies assuring everyone's steady growth and profits with little risk of unnecessary and possible ruinous competition.

**TABLE I**

**Composition of Industrial Output in Japan - 1990**  
**(\$ Millions)**

ISIC	Industry	Value*	%
	<b>High share</b>	<b>411527</b>	<b>50.4</b>
383	Electrical machinery	138727	17.0
382	Non-electrical Machinery including Computers	119541	14.6
384	Transport equipment	93264	11.4
381	Fabricated metal products	59995	7.3
	<b>Medium Share</b>	<b>187177</b>	<b>22.9</b>
371	Iron and steel	50341	6.2
352	Other chemicals	49186	6.0
342	Printing	47247	5.8
351	Industrial chemicals	40403	4.9
	<b>Low Share</b>	<b>217555</b>	<b>26.7</b>
365	Plastic products	30804	3.8
369	Other Non-metallic minerals products	27370	3.4
321	Textiles	26552	3.3
341	Paper products	23763	2.9
390	Other manufactured goods	15422	1.9
385	Professional and scientific equipment	13930	1.7
331	Wood products	13405	1.6
372	Non-ferrous metals	12346	1.5
322	Clothing	11278	1.4
355	Rubber products	10758	1.3
362	Glass and products	9170	1.1
332	Furniture, except metal	8297	1.0
353	Petroleum refineries	6598	0.8
361	Pottery and china	3093	0.4
323	Leather products	1816	0.2
354	Petroleum and coal products	1567	0.2
324	Footwear	1386	0.2
	<b>Total</b>	<b>816259</b>	<b>100</b>

\* Value added

Source: Computed based on GATT data.

Although the government's role in promoting industrial development has declined over the course of the postwar period, its ability to restructure "sunset" and promote "sunrise" industries through industrial policy\* remains a strong asset. In this regard, it is

\* Industrial policy is the specific use of policy instruments (i.e., export promotion and import barriers against competitive goods) to develop dynamic export-oriented ("sunrise") industries or restructure declining ("sunset") ones. The instruments can be targeted to affect particular industrial divisions, individual industries, or firms.



designed to build up Japanese industries at the expense of their foreign rivals, remained intact. Within the above framework, industrial policies, import barriers, and export offensives have been the basis of Japan's successful rise to industrialized country status. The objective of this work is to analyze GCC-Japan economic relations emphasizing interdependencies in trade, energy, investment, and technology. Prospects for further economic cooperation will also be examined, and key geo-political features shaping such relations pinpointed. Additionally, a brief overview of Japan's industrial and trade policies will be undertaken, since these have been the bases of Japan's successful industrialization. Furthermore, it is in the context of these policies that GCC-Japan economic interdependencies are best put into perspective.

## **II. OVERVIEW OF JAPANESE INDUSTRIAL AND TRADE POLICIES**

### **1. Introduction**

Japan's manufacturing sector contributed 29% to GDP in 1990. But the growth rate of industrial output has fallen steadily since 1991 due to (i) the ending of the consumption boom in Japan, and (ii) lower export growth as a result of recessionary conditions in developed-country markets. While Japan is considered as an industrial country in the World community, this qualification seems to weaken when a closer look is taken at its industrial structure. Indeed, 8 industries account for almost 3/4 of Japan's industrial structure. The balance is accounted for by 17 other industries with negligible individual weight in the country's industrial structure (Table I). The implication of the above fact is that the industrial power of Japan depends only on a few highly developed and internationally competitive industries. Hence, it appears that Japanese industrial might has not been the result of developing a massive and broadly diversified industrial establishment. Economic considerations regarding the gradual loss of international competitiveness of the country's flagship industries of iron, steel, aluminum, and chemical products, tend to further weaken the Japanese export-oriented industrial engine of growth. Increasing energy costs are rendering these kinds of industries uncompetitive [12]. Having reached economic maturity, Japan seems to be facing the challenge of promoting economic growth in its post-industrial stage.

consumer-product research and development (R&D) orientation, which are regarded as models for industrial development [5].

However, the above internal factors are useful in explaining mainly the transformation of the domestic economy over time. To fully understand Japan's transformation into a key international economy, external factors need to be addressed. That is, the key role played by American postwar policy toward Japan must be put into perspective[6]. In many ways, it was the USA who intentionally created the conditions for the Japanese "economic miracle" to take place. Indeed, a Japanese hegemony over East Asia was a central pillar of American policy. By making Japan the new "workshop of Asia", the USA would succeed in achieving the goals of rebuilding the world economy and containing communism. The USA concentrated on reviving triangular trade between itself and Japan and Southeast Asia. A regional division of labor evolved with the USA supplying capital and technology, Japan mass consumer and capital goods, and Southeast Asia raw materials. This triangular framework is responsible for the transformation of East Asia into one of the most dynamic regions of the world economy.

In summary, with the USA providing open international markets and military security, Japan was able to concentrate on leading the economy to ever higher levels of export volumes and technological sophistication through the implementation of sound industrial and neo-mercantilist trade policies\*. Under the American sponsorship, Japan achieved minimum-cost economic and technical development\*\*.

Unlike other democratic industrial countries, Japan has not significantly opened its markets. In response to foreign criticism it would make minor concessions but its elaborate package of policies\*\*\*

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\* Neo-mercantilism differs from mercantilism in the relative importance of the military. Whereas mercantilism used accumulated wealth to increase the country's military power, neo-mercantilism maintains a minimum defense force and instead reinvests its wealth into the economy.

\*\* The most successful Asian countries (i.e., Japan, Korea, Taiwan, Singapore, and Hong Kong) gave priority to economic growth over social welfare spending, and followed outward-looking development strategies (export expansion and a market/private sector oriented approach). Active redistribution policies were minor. Instead redistribution was achieved through economic growth, which in turn, increased market demand for labor helping to spread the benefits of growth. In those countries, the industrial sector absorbed the annual rise in the labor force and also drew labor from other sectors to the extent that they became labor short. As to market/private sector approach, government intervention seeking to replace the market through direct controls was avoided. Thus, price distortions leading to resource misallocation were minimum [7], [8], [9], [10], [11].

\*\*\* Industrial policies, non-tariff trade barriers, and export subsidies.

# A GEO - POLITICAL ANALYSIS OF GCC-JAPAN ECONOMIC RELATIONS

Dr. Edwin G. Gutierrez\*

## Abstract

The objective of this work is to analyze GCC-Japan economic relations emphasizing interdependencies in trade, energy, investment, and technology. Prospects for further economic cooperation will also be examined, and key geo-political features shaping such relations pinpointed. A major conclusion is that the outlook for further economic cooperation will hinge on minimizing impediments hindering trade and investment between the two parties. Some of these impediments are political risks, cultural differences, bureaucratic constraints, and trade barriers. Both sides stand to benefit from expanded economic relations to the extent that economic interdependency is not converted into a fragmented zero-sum game, but into an evolving integrated relationship leading to a Pareto-optimum position for the parties involved.

## I. INTRODUCTION

In just over 40 years Japan has risen from the ashes of World War II to become the second largest economy in the world after the USA. Japan largely accumulated its substantial wealth and built its growing presence in the world economy through exports of high quality\*\*, mass consumer goods. In part, this success is attributable to Japan's industrial management style, labor relations\*\*\*, and

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\* Expert, GOIC, Doha.

\*\* The Japanese approach to high quality centers around the concept of "Kaizen". Kaizen means the gradual and continuing improvement of work involving managers and workers in the factory [1]. Operationally, Kaizen is achieved through a program of quality control, implemented by small groups of workers (quality circles) [2]. The key components of the quality control program are known as the 5 S's: "Seiri" (Organization), "Seiton" (Neatness), "Seiso" (Cleaning), "Seiketsu" (Standardization), and "Shitsuke" (Discipline)[3].

\*\*\* In fact, a major element in the development of the Japanese corporate system has been the integration of management and labor relations in companies ("Kigyoism"). Kigyoism is not based on hierarchy or authority but on participatory responsibility [4].