The Middle East, the Middle Kingdom and Japan

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Mission of the Afrasian Centre for Peace and Development Studies

Poverty and other issues associated with development are commonly found in many Asian and African countries. These problems are interwoven with ethnic, religious and political issues, and often lead to incessant conflicts with violence. In order to find an appropriate framework for the conflict resolution, we need to develop a perspective which will fully take into account the wisdom of relevant disciplines such as economics, politics and international relations, as well as that fostered in area studies. Building on the following expertise and networks that have been accumulated in Ryukoku University in the past, the Centre organises research projects to tackle with new and emerging issues in the age of globalisation. It aims to disseminate the results of our research internationally, through academic publications and engagement in public discourse.

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The Islands

The territorial dispute over possession of a group of islands in the East China Sea is indicative of the difficulty of managing relations between China and Japan. The two countries use different names for the islands. Japan calls them the Senkaku Islands and China refers to them as the Diaoyutai Islands. Of course, border disputes are not unusual among neighbors. What is rare is resolution of such disputes in an amicable manner. Given the strong nationalist currents that exist in both countries, such a resolution can hardly be expected for this issue, so it seems likely that the two countries will have to live with it for a long time to come.

Since the late 20th century, East Asia has been observing the emergence of China as a power to be reckoned with. China has gone through periods of prosperity and decline many times in the past, but unlike in the past, China’s current upsurge is happening in an East Asia where an established power already exists: Japan.

Civilization occurred early in China, and historically China has been by far the most advanced and the strongest power in East Asia. With justification, its inhabitants have long referred to their country as Zhongguo (the Middle Kingdom). Japan, on the other hand, was a peripheral state in the area that enjoyed a self-satisfying isolation. However, the tables were turned in the late 19th century. Japan showed greater adeptness than China in responding to the challenges of the West. And by defeating China under the Manchu dynasty and then Tzarist Russia as well, Japan entered the 20th century as a significant power while China remained weak. Thus, historically, when China was strong Japan was inconsequential, and with Japan strong China was weak. Now however, for the first time in history, both China and Japan are strong. Coexistence of established powers with rising powers is always difficult, and the present situation is made even more complex by the history of Japan’s invasion of China in the first half of the last century.

The above-mentioned territorial dispute is sharpened by the existence of natural gas reserves that lie beneath the sea around the islands. This is significant, because it is in the field of energy that the two countries are potential rivals. Satisfying the unquenchable thirst for energy of both China and Japan is a challenge that requires

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careful coordination among the Middle East suppliers and the East Asian consumers. It is hoped that an analysis of the relationship between China and Japan centering on energy will shed light on the structure of the East Asian political landscape and give insight into the important place occupied by the Middle East in relations between these two hungry giants.

Supply Side

In Japan, some argue that the instability of the Middle East, Japan’s most important energy supplier, might threaten the country’s energy supply. Other Japanese specialists believe that growth of the developing economies is putting a strain on the world’s energy supply, including that of Japan. In particular, the growth of energy demand in China is a cause of concern for Japan. However, it is suggested in this paper that although both arguments undoubtedly have more than a grain of truth, Japan’s lack of long-term thinking and its failure to coordinate its energy policy with its approach to China are to some extent responsible for its predicament in energy.

The Middle East has been going through a particularly turbulent period since the latter half of the last century: a series of wars in and around Palestine, many coups in the Arab countries and the revolution in Iran, wars for the future of Afghanistan and three wars in the Gulf, to mention some of the upheavals. Japan is not in a position to have much influence on developments in this region. After the two oil crises that originated in the area, Japan has been doing its best to reduce its reliance on oil from the Middle East. Although Japan has managed to shift some of its reliance on oil to alternatives such as nuclear energy, its dependence on the Middle East remains high. Japan has also been seeking to import more natural gas, but the Gulf area, namely Qatar, is still one of the most important suppliers of natural gas for Japan. So it seems that there is no escape from the Middle East. Japanese efforts to diversify the source of energy are a sad story of singular failure. Japan’s oil dependence on the Gulf countries remains high and is still on the rise, the likelihood being that it will come close to ninety percent. There is no viable substitute for oil from the Middle East. As pointed out by Charles Issawi, the late economic historian of Princeton University, “The world will boil and dig the soil but the world will never go on without Middle East oil.” Thus, on the supply side of oil, Japan has little control and remains potentially vulnerable to disruption of energy sources in the area.

Demand Side

The age of Western imperialism in the 19th and 20th centuries was a difficult period for China as it was for the Middle East. China entered the period under the Manchus, a foreign dynasty. Throughout its history China has gone through cycles of dynastic
change that included both indigenous and foreign nomadic dynasties. It so happened that when China faced the Western challenge, it had been ruled since 1644 by the Ching Dynasty with its roots beyond the Great Wall. The Ching Dynasty had long passed its peak and it was in a period of slow but continuous decline. Europeans, Americans and Japanese took advantage of its weakness to establish their presence in China in various forms until finally being pushed out of the Chinese mainland as late as the 1950s. The Russians were the last to leave. The Soviet Union declared war on Japan, occupied Manchuria in the final days of World War II and retained its base in Dalian in China’s north-eastern province (formerly Manchuria) until 1950, five years after the end of the War.

China itself had to go through a bloody civil war between the Communists and the Nationalists. The Communists won the war and established the People’s Republic of China in Beijing in 1949, while the Nationalists fled to the island of Taiwan, claiming legitimacy as the Republic of China.

In the following year the Korean War broke out and at the end of that year, 1950, China intervened to save North Korea from defeat. Chinese fought a bitter war of attrition against the United States and others until the armistice of 1953. During the 1960s, China’s leader Mao plunged the country into upheaval with the event known as the Great Cultural Revolution. Whatever the merits of this revolution, it was certainly not conducive to economic development. Although China achieved some technological breakthroughs such as the development of nuclear weapons, it remained largely backward and an agricultural society.

As the revolution wound down, China’s economy started to rise. After its leader Deng Xiaoping opened up its economy in 1978 and introduced reforms, China started to experience explosive growth. Beijing essentially introduced a market economy in a country ruled by communists. Incidentally, at about the time when China was introducing its economic reforms, in Iran the revolutionary government came to power. As one Chinese scholar put it, “When we finished our revolution, they started theirs.” While in the past 27 years the Iranian economy has been struggling (to put it mildly), these same years have transformed China from a backward agricultural economy into the workshop of the world. The phenomenon is nothing less than “revolutionary.” Human beings have never before seen such sustained economic growth achieved by such an enormous economy.

China is absorbing huge amounts of manufactured goods, raw materials and energy to sustain its growth. Since the time of Marco Polo, China has been a dream market with huge potential, and now its dream and potential have finally become reality. Raw material producers have been enjoying a China boom. Many heavy industries such as
steel and ship-building have also recovered in Japan and South Korea, despite having once been written off as facing extinction.

Dreams and potential, however, are at their most beautiful when they are just that: dreams and potential. When they become reality, many problems begin to make their appearance. The impact of the phenomenon on energy first became apparent in the 1990s. In 1994, China became a net importer of oil, despite the fact that until then oil had been one of the country’s main export items. And in the year 2005 its oil consumption surpassed that of Japan, with China becoming the second largest consumer of oil in the world only after the United States. And this year, 2006, the Chinese are expected to purchase close to seven million seven hundred thousand automobiles. This is bigger than the expected total sales of automobiles of slightly less than 6 million units in Japan. China will thus become the second largest automobile market in the world, again only after that of the United States. China’s four thousand dollar car is sweeping its domestic market, creating an unquenchable thirst for oil (Nikkei Business, 18 September, 2006, pp.30-31).

The Middle Kingdom in the Middle East

Already Chinese businessmen are in every corner of the world in order to purchase oil. They seem to be oblivious to the unsavory reputations of the countries concerned such as Sudan, which are not exactly well-known for their observance of human rights. China is already the major purchaser of oil from and investor in Sudan (BBC World Service, 26 September, 2006).

But like anybody else, if they want oil they have to come to the Middle East, and they have been establishing their presence in the area. In the 1980s, China sent thousand of workers to Iraq.

Since the 1990s, many Chinese have also been working in Iran. They have completed the work of building the subway in Tehran, which the French started in the 1970s. The subway has been a long-delayed dream of Iran since the time of the Shah as a way of alleviating the capital’s impossible traffic jams. China has numerous investment projects in Iran. One is in the Iranian part of Azerbaijan and another is in Khorramshahr near the Iraqi border (Net News of the International Development Center of Japan, 26 July, 2006). A growing number of Chinese businessmen and workers are operating in Iran. On Iran Air’s twice-weekly flight between Tehran and Tokyo via Beijing, Chinese workers can sometimes be seen drying their underwear in the plane. China also supplied weapons to both Iraq and Iran in the past. And on the other side of the Gulf, any traveler to Dubai can observe the growth of the Chinese community there known as Dragon Town.
The most recent example of China’s expanding presence in the area is its offer to increase its 180 troops to one thousand in order to strengthen the UN’s peace-keeping forces in Lebanon. This would make China one of its largest contributors. It would also signal that China, now the world's fourth-largest economy, is starting to see the Middle East as important enough to risk the lives of its young people. The UN wants to raise its troop numbers in southern Lebanon to 15,000 according to UN Security Council Resolution 1701. This follows August's UN-brokered truce which ended 34 days of fighting between Israel and the militant Hezbollah movement. In the past, China has been reluctant to play a leading role in UN peacekeeping missions, as it been critical of UN missions for interfering in other countries' internal affairs.

However, with its economy becoming ever more powerful, China has been facing calls from the US and EU to play a greater international role. It own foreign policy has shifted so that ensuring access to natural resources like oil is now a priority. Earlier this year, before fighting broke out between Israel and Hezbollah, China sent 180 peacekeepers to the UN force in Lebanon, its first-ever peacekeeping contingent to the Middle East (BBC World Service, 18 September, 2006).

These diplomatic, business and military activities in the area support Beijing’s oil imports from the Gulf oil producers, and they appear to be paying off. Saddam’s regime signed a contract with China which would give it the right to develop one of its oilfields in the south, no doubt in an attempt to make ineffective the UN sanctions then being imposed on Iraq. There have been arguments since the collapse of Saddam’s regime as to whether the contracts signed with it are valid or not. After a long delay, the new government of Iraq finally decided to request China to go ahead with its development project. This is the first such request by the central government of Iraq to a foreign country, although the Kurdish regional government has allowed foreign oil companies to operate in the north (Nikkei net, 28 September, 2006).

Other oil producers in the area are important, too. Last year, China’s oil imports from Iran increased by 80 percent. By 2010, Kuwait’s exports to China will have increased five-fold from the current 30-40 thousand barrels a day to 2 million barrels a day, as a new refinery in the southern coast city of Guangzhou will have been completed with joint investment by Kuwait and its Chinese partner (Net News of the International Development Center of Japan, 25 September 2006). China’s huge and rapidly growing market is attracting Gulf investors with the force of a strong magnet.

China’s growing presence in the Gulf means that Japan faces new and strong competition in securing oil in the area. China has many cards that Japan does not—one of which, of course, is the fact that China can export military hardware. The Japanese
can take pride in the fact that not a single human being has been killed by a Japanese-made weapon since the end of the Second World War, because Japan bans the export of weapons, but at the same time this means Japan lacks that leverage in diplomacy. The ability to export weapons is a potent card in the game of international politics. China can and sometimes does export missiles, but Japan cannot do so.

China also has the potential to play a more active role in peacekeeping operations under the UN umbrella and even in peacemaking operations where there is no peace to keep. In addition to that, China as a permanent member of the UN Security Council can shield its friends from unfavorable resolutions by using its veto power. This is something that Japan cannot do, either.

China has been utilizing these policy instruments in the establishment of strong ties—for example, with Iran. And Iran is taking full advantage of China’s presence in pressuring Japan to comply with its wishes. The issue of development of the Azadeghan oil field is a case in point. Japan and Iran signed a contract in the early 2000s to develop the field, which with an estimated 26 billion barrels is possibly one of the world’s largest untapped oil reserves. It is located in southeast Iran. At the moment, however, Japan is very reluctant to start a project because of opposition from the United States, which is pressing for international sanctions against Iran because of its nuclear program. The UN Security council has threatened Iran with possible sanctions unless it stops uranium enrichment by the end of August.

Iran threatened that it might go ahead with the development of Azadeghan in partnership with China, among others, if no agreement with Japan had been reached by September 15. Iran then extended its deadline to September 22 (The Times, 05 September, 2006). Using the threat of deadlines seems to be in vogue in diplomacy in these days: the UN against Iran, and Iran in turn against Japan. Poor Japan, it has nobody to threaten with deadlines. Thus, for Iran, China has proved to be a useful counterweight against Japan. In short, China is emerging as a formidable competitor for Japan in its quest for energy sources.

**Which China?**

Japan has a history of difficult relations with China. The two countries fought a war in 1894 and again from 1930 to 1945. Japan’s invasion and occupation of China continued until the end of the Second World War, leaving deep scars in the minds of the victims which have not yet healed. Against this background Japan had to rebuild its relations with China. But with which China? Japan had to choose.

As mentioned already, the Nationalists and the Communists fought a bitter civil war
over the future of China that started before World War II. In the face of Japan’s aggression, the two sides stopped fighting for a while, only to restart following Japan’s defeat in 1945. The Communists defeated the Nationalists and established the People’s Republic of China in Beijing in 1949. The Nationalist fled to Taiwan and there claimed to represent the entire Chinese nation. At the urging of the United States, Japan at first recognized the regime in Taiwan as the legitimate government of China.

It was not until 1972 that Japan “de-recognized” the government in Taiwan and accepted Beijing as the sole and legitimate government of China. In the negotiations to establish official ties with Beijing, Tokyo offered to extend ODA (official development assistance)—loans by the government of Japan at a reduced interest rate—in exchange for China’s renunciation of its right to claim reparation for damages inflicted by Japan during the war in the 1930s and 1940s.

Who Has Been Fuelling the Boom in China?

Since then, China has every year received enormous sums of ODA from Japan amounting to tens of billions of dollars, mainly to build infrastructure such as ports, roads, bridges, hospitals and others. In addition, since the opening of China’s economy by Deng Xiaoping in 1978, Japan’s business community has been investing massively in the country.

As already mentioned, with the acceleration of its economic growth, China started burning more oil. Bicycles were once the most-used means of transportation in the cities. Even as late as the 1980s, one could still observe staff moving on bicycles at Beijing International Airport from a window of the airplane. But now automobiles are everywhere. This change in the mode of transportation has meant that more oil is being burnt. Once, oil was China’s major export item to Japan, but when China became a net importer of oil in the mid-1990s it gradually stopped selling oil to Japan as long term contracts expired. And now, the Chinese and Japanese are in competition over Middle East oil.

On the one hand Japan has always worried about stability of energy supply, but on the other hand it has encouraged its neighbors to consume more oil. The Japanese are still encouraging the Chinese to burn more oil. Japanese money has fuelled the boom in China. Regarding the current predicament of high energy prices and stiff competition with China over Middle East oil, Japanese policy makers have nobody to blame but themselves. It is not the fault of anyone in the Middle East, nor that of Chinese; it is their own fault.
What Could Have Been Done?

Did Japan have any other choices in what it did? This author believes that Japan could have influenced the direction of China’s economic growth. Japan could have encouraged China to develop its own energy sources, improve energy efficiency and saving, and advance environment-friendly projects by channeling its investments into these sectors. As a matter of fact, even in the early 1990s, this author was advocating that Japanese loans should be shifted from traditional infrastructure to these sectors so that development could become “sustainable.”1 Furthermore, at the government’s council on Japan’s energy policy in 2001, this author expressed the opinion that growing energy demand in China would be a challenge for Japan that would require a policy response. But to no avail. Japan could and should have exercised greater influence in the direction of China’s development.

Better Late Than Never

So at this late stage, is there anything that can still be done to alleviate the situation? The answer would seem to be: yes, there is. It still makes sense to help China develop a new energy source. Perhaps it is true that there is no such thing as a new energy source, but with the help of technology, an old energy source can become a new one. China relies heavily on coal—but burning coal, particularly low-quality coal, pollutes the air. Chinese cities are choking on polluted air. China’s growing appetite for oil can in part be explained by its desire to reduce the burden on the environment.

Japan’s assistance should be used to provide equipment for reducing emissions from factories and power plants when they burn coal. Better still, Japan should provide coal liquefaction technology. This is still a costly technology, but given the high price of oil at the moment, it will pay to liquefy coal into a liquid energy source. During the Second World War, Nazi Germany used this technology to squeeze oil out of coal. Japan now has this technology and its Ministry of Economy and International Trade is planning to build coal liquefaction plants in China, Indonesia and Mongolia. Given China’s vast coal reserves, in the long term this technology is expected to ease the pressure on the oil market (Mainichi Shimbun, net edition, 25 September, 2006).

Japan is also encouraging China to build up its oil reserves for emergencies, so that it can ride through any supply disruption without overbidding for oil. Japan at the moment maintains substantial reserves in ten places that should give 166 days’ coverage at the

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1 Kazuo Takahashi, “Enjyotaikoku-no Mosaku/Nihon-no Keizaikyouryoku” (Grouping of a Major Donor/Japan’s Economic Assistance), in Hitoshi Abe (ed.) Hendousuru Nihonshakai (Japanese Society in Transformation), Housoudaigakukyouiku Shinkoukai, 1993, pp.299-310.
normal rate of consumption. Chinese specialists have already visited these reserve bases in Japan.

So Japan is slowly beginning to move in the right direction by encouraging China to choose a sustainable path in energy. China has started responding, if not to Japan’s prodding, then at least to the gravity of the situation. It is reported that China is about to publish its first white paper on energy in order to make its energy policy more accessible to outside observers (Asahi Shimbun, net edition, 26 September, 2006). China is now taking its first steps in the right direction. The Chinese are famous for their patience, and can always outwait their enemies. But in this issue, the time available is not without its limits. Closer coordination between Japan and China and collaboration between the two are urgently called for, before China’s growth can cause any major clash between these East Asian powers. The territorial dispute over the small number of islands mentioned at the beginning of this paper should serve as a warning. How to feed these two hungry giants is a challenge that needs to be faced, since otherwise their hunger may turn into anger.

The emergence of a new power is often accompanied by destabilization. The unification of Vietnam in 1975 was followed by its invasion of Cambodia and a brief border war with China. The unification of Germany in 1989 was followed by the collapse of the Soviet Union and the eastward expansion of the EU. It was remarkable that this transformation took place without much bloodshed. The earlier unification of Germany in 1871, however, created a catastrophic situation by upsetting the international balance of power in Europe. The end result of this was the First World War. The world is now observing China’s emergence as a new power, possibly a superpower. The issue is whether East Asia is big enough and its inhabitants wise enough to accommodate two powers at the same time.

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2 The home page of Sekiyu Jyouhou Center-Oil InformationCenter (http://oil-info.ieej.or.jp/).
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