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**THE UNITED STATES, JAPAN,**

**AND**

**THE GULF REGION**  
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## **Foreword**

Over the past two decades, the US-Japan relationship has grown increasingly global in a rapidly globalizing world. The bilateral ties of these two economic super powers remain the cornerstone of their diplomacy and their national security in the Pacific. Tokyo and Washington, however, increasingly interact in broader contexts as well.

Nowhere outside the Asia-Pacific region is US-Japan interaction with third parties more economically and strategically important than in the Arabian (also known as Persian) Gulf. The Gulf, from which Japan obtains over 80 percent of its entire oil supply, has well over third of the conventional oil reserves, and a large share of the natural gas on earth. It also has a tenth of global foreign exchange reserves. Although holding less than one percent of world population, the Gulf's persistent political instability poses a continuing challenges to world peace and security.

This monograph explores the strategic triangular relationship among the US, Japan, and the nations of the Arabian Gulf, with a special focus on the Gulf Cooperation Council countries and the Arc of Crisis that surrounds

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## **THE UNITED STATES, JAPAN, AND THE ARABIAN GULF**

Traditionally the US-Japan alliance relationship has been focused geographically on Northeast Asia. Indeed, the stated objective in Article I of their bilateral mutual security treaty, drafted and signed in the midst of the Korean War, is to “contribute to the maintenance of international peace and security in the Far East” and “to the security of Japan against armed attack from without...”<sup>1</sup> When Prime Minister Yoshida Shigeru and US Secretary of State Dean Acheson, together with three US colleagues,<sup>2</sup> signed that treaty at the Presidio of San Francisco, the immediate concern of both parties was no doubt the future of the Korean peninsula itself, and the very real threat that North Korean aggression posed to Japan.

The world, however, has changed, and the US-Japan relationship is inevitably changing with it. The Japan of 1951, with a GDP less than 3.5 percent of the global total,<sup>3</sup> has recovered from the ravages of war, to become an economic superpower. Today, even after a quarter century of relative stagnation, it boasts the third largest economy, and the second

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<sup>1</sup> Article I of the Security Treaty between the United States and Japan, signed September 8, 1951. Available on-line through the Avalon Project Documents in Law, History, and Diplomacy, at: [http://avalon.law.yale.edu/20th\\_century/japan001.asp#art2](http://avalon.law.yale.edu/20th_century/japan001.asp#art2).

<sup>2</sup> State Department special advisor John Foster Dulles, as well as the chairman and ranking minority member of the Senate Foreign Relations Committee (Senators Tom Connally of Texas and Alexander Wiley of Wisconsin respectively) also signed for the US, although Prime Minister Yoshida signed alone for Japan.

<sup>3</sup> Japan’s GDP in 1951 was \$181 million, while global GDP in 1950 was \$5.3 billion in 1950 dollars. See Maddison Development Center. *The World Economy: Historical Statistics*, at: [http://www.ggdc.net/maddison/other\\_books/new\\_HS-7.pdf](http://www.ggdc.net/maddison/other_books/new_HS-7.pdf).

largest foreign-exchange reserves, on earth. Under Prime Minister Shinzo Abe, who has already visited around fifty nations in his still-short tenure at the *kantei*,<sup>4</sup> Japan is becoming a major global diplomatic actor as well.

The world itself, of course, is much more interdependent than it was in 1951. International trade has grown explosively, and cross-border investment has expanded many times over as well. Since the early 1980s, China has become deeply integrated with the world economy, and with Russia, Eastern Europe, and Vietnam following it, a decade later, into interdependence. Veritable revolutions in finance, communications, and social relations have created a global village where both intimacy and uncertainty simultaneously prevail.

In this productive, growing, yet volatile and dangerous new world, the fortunes of the United States and Japan are intertwined on a much larger canvas than in past years. Their mutual relationship is no longer purely bilateral, and no longer solely across the Pacific. For both analytical reasons and reasons of state, it is crucial to consider concretely how they relate to one another, and to others, in key regions beyond the Pacific in our increasingly global world. US-Japan relations have important expressions in Europe, Southeast Asia, India, Africa, and elsewhere.

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<sup>4</sup> As of September, 2014, Prime Minister Abe had already visited 49 countries since taking office. See Council on Foreign Relations. "Transcript: A Conversation with Shinzo Abe", September 23, 2014, at: <http://www.cfr.org/asia-and-pacific/conversation-shinzo-abe/p33494>.

## **CHAPTER ONE: THE GLOBAL SIGNIFICANCE OF THE ARABIAN GULF**

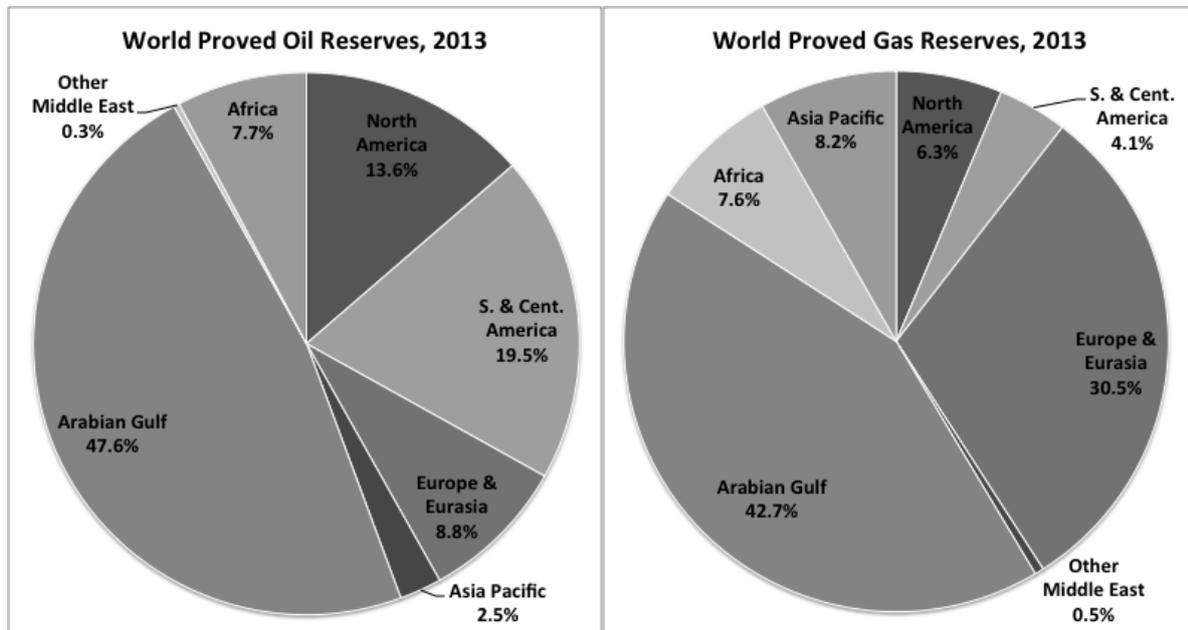
With an area of only 251,000 square kilometers, and relatively shallow waters averaging only 50 meters deep, the Arabian Gulf (known frequently in the West as the Persian Gulf also) is not an imposing body of water in hydrological terms. It does, to be sure, have extensive coral reefs, abundant pearl oyster beds, and many fishing grounds. A century ago, those natural endowments were the basis on which it was known.

Yet marine life is not what the Arabian Gulf is known for today. The seven countries that border its shores—Bahrain, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the UAE-- produce a quarter of the world's oil. They also hold nearly half of global proven conventional oil reserves, and over forty percent of comparable world natural-gas reserves, as indicated in Figure 1-1. These nations, in short, hold a critical share of the most strategically and economically important energy resources on earth.

The individual energy fields beneath the Arabian Gulf are also mammoth in global comparative perspective. The Safaniya oil field off Saudi Arabia, for example, is the largest offshore oil field in the world, just as the giant Ghawar elephant field on-shore is the world's largest in its category. The massive, integrated gas field beneath the Gulf, known as the North Field in Qatar and South Pars in Iran, is likewise the most extensive

on earth. The Arabian Gulf is quite literally the world’s greatest energy storehouse.

**Figure 1-1: GULF SHARE OF GLOBAL OIL AND GAS RESERVES**



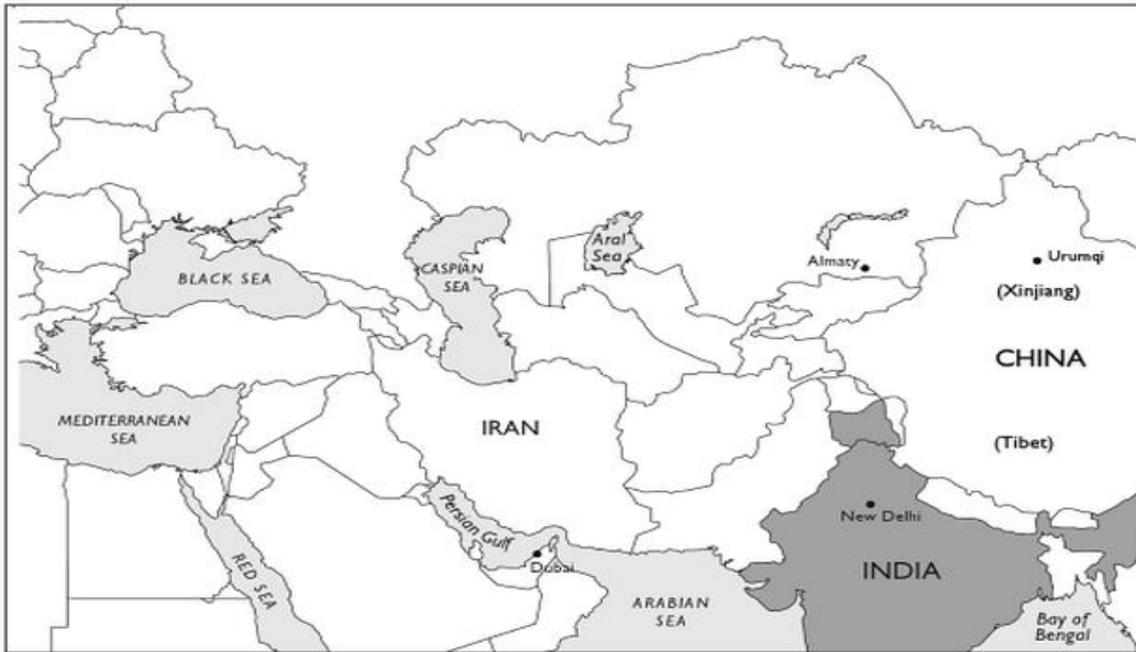
Source: BP Statistical Review of World Energy, June 2014.

**A Special Gulf-Asia Linkage, with Global Implications**

The Arabian Gulf’s energy is uniquely important to East Asia, for a variety of reasons. Some parts of the region, such as Japan, Korea, and Taiwan, are virtually devoid of hydrocarbons. Most, including populous giants like China and India, are growing rapidly, even as their populations consume more and more energy on a per capita basis. And all are located, as Figure 1-2 suggests, on a direct geographic line to the Gulf, across the Arabian Sea and the Indian Ocean, with no continent to circumnavigate.

Asia is thus much more accessible to the Gulf—and the Gulf more accessible to Asia—than is the case for either America or Europe.

**Figure 1-2: THE CLOSE GEOGRAPHICAL PROXIMITY OF ASIA AND THE GULF**

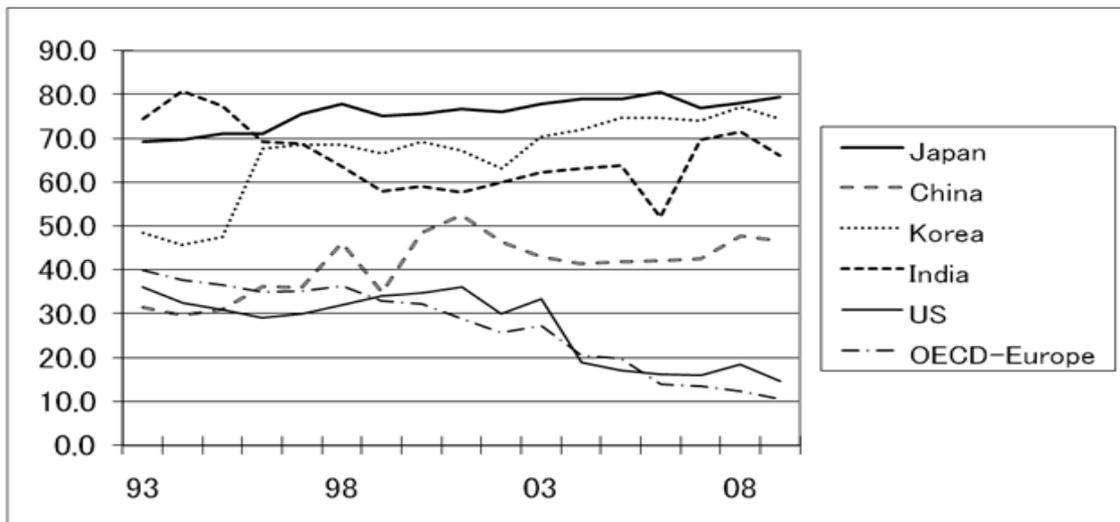


Not surprisingly, in view of the foregoing, the major nations of Asia have recently grown much more dependent on the Arabian Gulf for their energy supplies—particularly for oil—than has any other major consuming corner of the world. Indeed, as indicated in Figure 1-3, Japan and South Korea both obtain nearly five-sixths of their oil supplies from the Gulf, and that ratio has been rising in recent years. China’s dependence is lower, due to conscious diversification away from what Beijing appears to see as a risky, geopolitically conflicted region. Yet China’s Gulf dependence is still significantly higher than that of either America or Europe, and massively

higher, especially in quantitative terms, than the PRC's own dependence was just a decade or two ago.<sup>5</sup>

**Figure 1-3:**

**THE HIGH RELATIVE DEPENDENCE OF ASIAN NATIONS ON THE GULF**



*Notes:* India figures for the 2000-2004 period were not available.

*Sources:* Japan, US, and OECD-Europe data: Energy Information Administration, Department of Energy; China and India data: United Nations Commodity Trade Statistics and Planning Commission of India, "Integrated Energy Policy: Report of the Expert Committee," Government of India Planning Commission, August 2006.

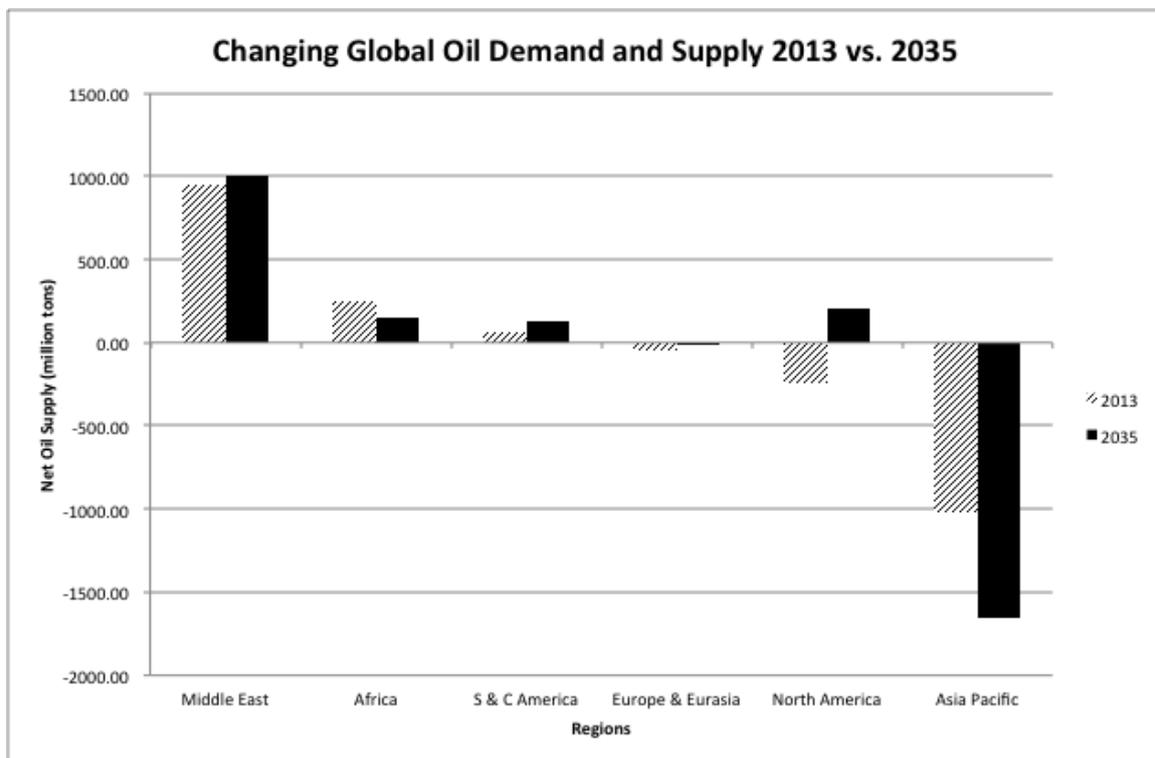
Looking into the future, this high relative hydrocarbon dependence of Asian nations on the Arabian Gulf is likely to continue, and even intensify. Asian economic growth is more rapid than elsewhere in the world. And Asian economies stand in a phase of their developmental cycle where their growth tends to be uniquely energy-intensive. Energy-intensive industries like steel, shipbuilding, and petrochemicals, after all, are growing rapidly,

<sup>5</sup> China, of course, was a net oil-exporting nation until the third quarter of 1993.

even as consumer thirst for automobiles, electric appliances, and air conditioning also expands.

On the supply side, it seems likely that shale-gas production will not rise nearly as fast in Asia as in North America or even Europe, due to technology, water, and actual resource-endowment constraints. Much discussed hydro-carbon reserves in Africa and Brazil, including the sub-salt oil deposits off-shore Rio de Janeiro, will not develop as rapidly as projected, for political and technical reasons. As a consequence of the foregoing, Asia's relative energy dependence on the Gulf will most likely continue to rise, even as that of other regions plateaus or declines. The magnitude of Asia's dependence on the Gulf could well, as the BP Energy Outlook 2035 suggests, be sharply greater by 2035 than it is at present. Those projections are presented in Figure 1-4.

**Figure 1-4: RISING ASIAN DEPENDENCE ON THE GULF TO 2035**



Source: BP Energy Outlook 2035, February 2015

For Asia, the importance of the Arabian Gulf in energy terms is thus clear. For Japan, as a Northeast Asian nation virtually devoid of hydrocarbons, the painful economic reality is undeniable. In future years, the energy import equation may begin to change somewhat with the emergence of shale-gas imports from North America, and expanded natural-gas imports from Australia’s North-West Shelf,<sup>6</sup> or from Russia. Yet Japan’s underlying dependence on the Gulf for the bulk of its oil is unlikely to change significantly in the foreseeable future.

<sup>6</sup> The Woodside-operated North West Shelf Project is Australia’s largest oil and gas resource development, and one of the world’s largest liquefied natural gas (LNG) producers. See the Woodside website, at: <http://www.woodside.com.au/Our-Business-North-West-Shelf/Pages/default.aspx#.VOUV.vnF.ms>.

Japan is, by a substantial margin, the largest importer of Gulf oil in the world, and that has been true for more than two decades. In 1994 it took over that position from the European Union.<sup>7</sup> Since the early 2000s, however, there has been growing regional competition for Arabian Gulf resources. Most of that has come from Japan's immediate neighbors, with Korea being a significant importer from the Gulf since the 1970s, and China's imports growing explosively since the Asian financial crisis of 1997-1998, as we will note in greater detail in the following chapter.

### **The Geopolitical Implications of a Swing-Producer Role**

Apart from the enormous supplies of energy that the Gulf supplies to the broader world, it has also been important, since the mid-1970s, for the systemic role it plays in global oil markets. When the price of oil gets so high as to encourage development of alternatives, or to cause stagnation in consuming nations, the Gulf Arab nations, led by Saudi Arabia, have typically expanded production. And when oil prices get too low, the Gulf states have curtailed production. Through astute and self-interested production and pricing policies for a strategically and economically vital commodity, the Gulf producers have perpetuated global dependence on hydrocarbons, while generally also contributing to stable economic growth in their customer nations.

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<sup>7</sup> BP Inter-Area Total Oil Movements History, 1965-2013.

At times Gulf Arab oil production has also, in recent years, arguably served a fateful global geostrategic function. Following the Soviet invasion of Afghanistan in 1979, for example, and continuing into the mid-1980s, Saudi Arabia significantly expanded its oil production, even in the face of stagnant global demand, leading to a marked decline in global oil prices. This decline had little impact on the Gulf Arabs themselves, due to their modest fiscal needs at the time, and their massive reserves. It did, however, have painful consequences for the Soviet Union, as well as Iran and Iraq—all of whom were major oil exporters with major military expenditures and consequent fiscal needs. The low oil prices provoked by Gulf Arab production expansion, led by Saudi Arabia, grievously wounded the Soviet Union, and arguably helped lead to its sudden collapse in 1991.

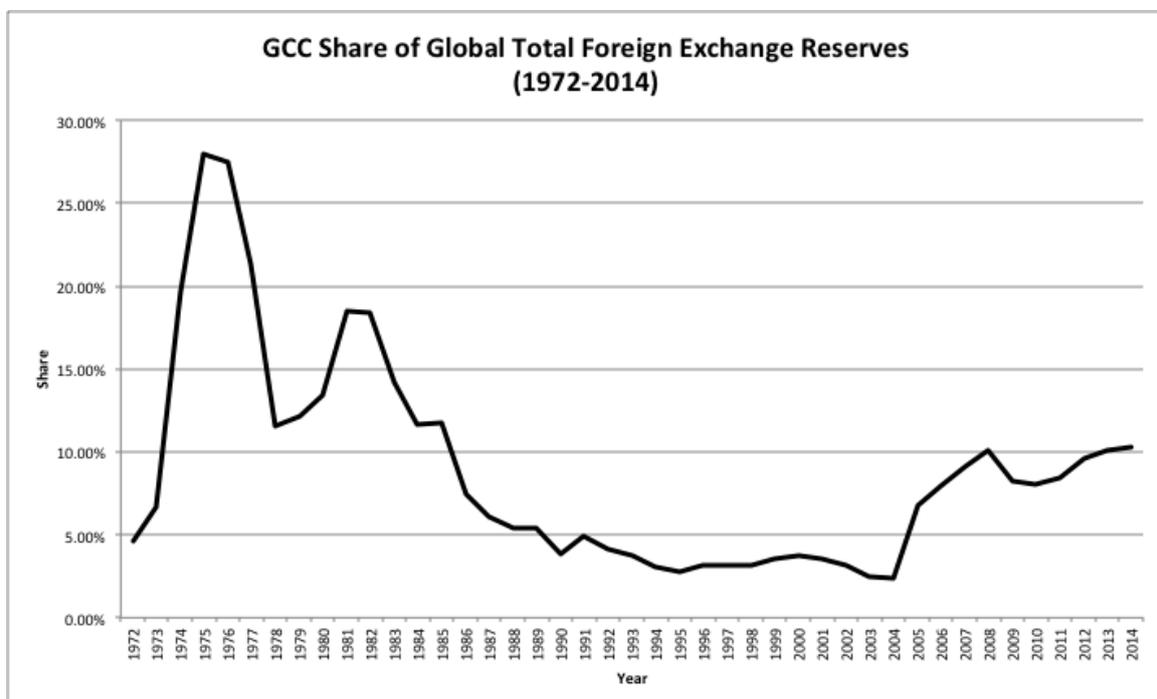
Once again, in the fall of 2014, as global energy supplies were rising in the wake of the shale-gas revolution, Saudi Arabia took energy-production steps with a geopolitical implication. Even though oil markets were soft, it failed to cut production, as a classic stabilizing swing producer normally would do, leading to sharp price declines, from over \$100 per barrel of crude oil to under \$50. The result was severe economic pressure on fellow petro-states around the world with whom Saudi Arabia and the United States had clear differences, including particularly Russia, Iran, and Venezuela.

## The Gulf and Global Finance

The global significance of the Arabian Gulf goes far beyond energy, extending also into international finance. Since the Oil Shocks of the 1970s, and the high-price era for oil which has prevailed for most of the four ensuing decades, the Arab Gulf states have amassed and retained a major share of international foreign exchange reserves. By the early twenty-first century the six nations of the Arab Gulf held close to ten percent of global foreign-exchange reserves, or more than \$1 trillion, as indicated in Figure 1-5.

**Figure 1-5:**

### **A RISING CONCENTRATION OF GLOBAL RESERVES IN THE ARAB GULF**



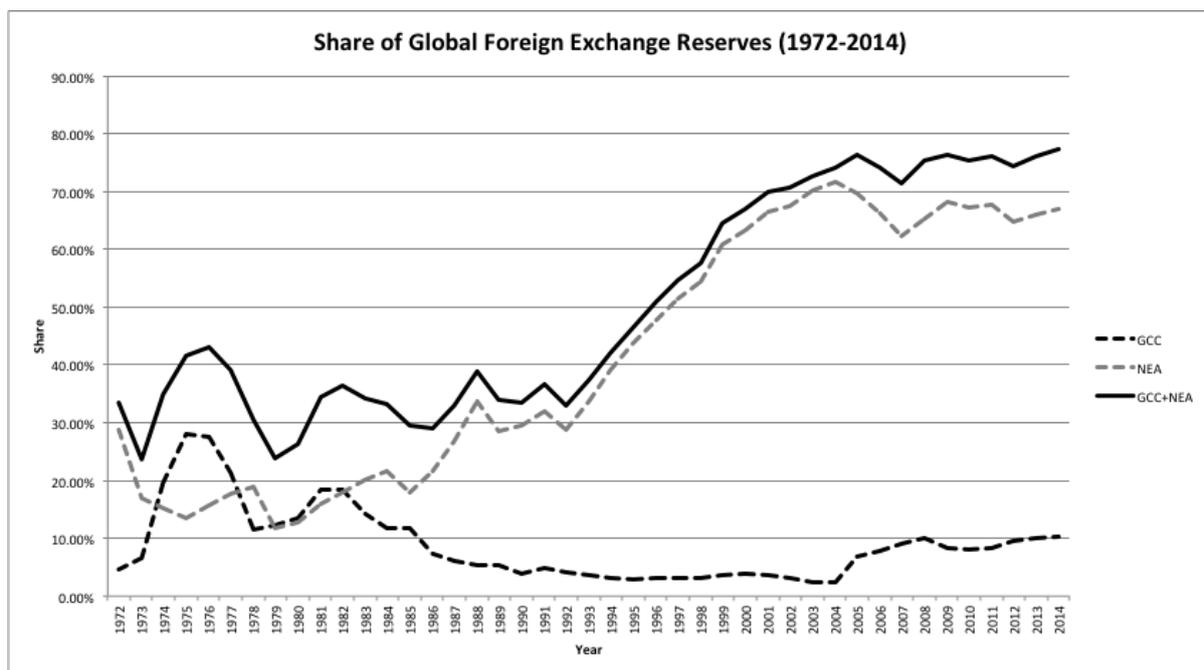
*Note:* "Global Total" was calculated by adding foreign reserves held by Bahrain, Brazil, China (including Hong Kong), France, Germany, India, Italy, Japan, South Korea, Kuwait, Oman, Qatar, Russia, Saudi Arabia, Singapore, Switzerland, the UAE, the UK, and the US.

Source: International Monetary Fund, International Financial Statistics

The Gulf nations have held a position in international finance rivaled only by the new industrializers of East Asia, especially China. Since 2004 the PRC's share of world financial reserves has nearly doubled, from around 25 percent to fully 45 percent of the global total.<sup>8</sup> As is clear from Figure 1-6, the *combined share* of the Gulf and East Asia in global financial reserves has been dominant ever since the 1970s, and shows prospect of continuing to hold that position.

**Figure 1-6:**

**COMBINED FINANCIAL RESERVES OF THE GCC AND NORTHEAST ASIA**



Source: IMF International Financial Statistics

<sup>8</sup> Central Intelligence Agency. The World Fact Book, 2014 edition, at: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2188rank.html>.

It is important to remember that, in contrast to Iran, Russia, and most other petro-states, the nations of the Arab Gulf generally have enjoyed a felicitous combination of endowments: massive hydrocarbon reserves and modest fiscal requirements, due to their relatively small populations. The Gulf states thus also enjoyed considerable leeway both in aligning production to larger long-term national objectives, such as promoting continued global reliance on hydrocarbons, and also in deciding how to deploy their very substantial foreign-exchange reserves.

The Gulf nations can potentially recycle petro-dollars in many ways: through foreign direct investments; by extending foreign assistance; by contributing to collective global projects; and by expanding their security and global roles abroad. They can, alternatively, use the petro-dollars gained from exports to expand consumption at home. Domestic claims on oil and gas revenue have steadily risen since the Oil Shocks of the 1970s, and will continue to rise. Yet compared to destabilizing petro-states like Russia, Iran, and Venezuela, the nations of the Arab Gulf have the flexibility to play an enlightened global role—a point we will develop later in greater detail.<sup>9</sup>

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<sup>9</sup> On the distinction between “stabilizing” and “destabilizing” petro-states, see Kent E. Calder. [The New Continentalism: Energy and Twenty-First Century Eurasian Geopolitics](#). New Haven: Yale University Press, 2012, pp. 117-121.

The nations of the Arab Gulf use various institutional means to recycle their formidable assets, but one of the most significant vehicles, from a global standpoint, is the sovereign wealth fund (SWF).<sup>10</sup> Rather than mechanically investing government surpluses in key-currency government securities, as the central banks and finance ministries of surplus nations have traditionally done, sovereign wealth funds typically deploy their assets much more broadly, investing in both public and private debt, as well as a wide range of equities worldwide. As indicated in Table 1-1, the SWFs of the Arab Gulf are some of the largest in the world, together with those in the Far East. Together, the sovereign wealth funds of the Gulf and Northeast Asia include nine of the top ten SWFs worldwide. Significantly, Japan is the one major surplus nation that does not have a sovereign-wealth fund.

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<sup>10</sup> On sovereign wealth funds, see Gordon L. Clark, Adam D. Dixon, and Ashley H.B. Monk. Sovereign Wealth Funds: Legitimacy, Governance, and Global Power. Princeton: Princeton University Press, 2013.

**Table 1-1: MAJOR SOVEREIGN WEALTH FUNDS OF THE WORLD:**  
**THE KEY ROLES OF THE ARAB GULF AND EAST ASIA**

Ranking	Country	Sovereign Wealth Fund Name	Assets \$ Billion
1	Norway	Government Pension Fund-Global	\$ 893.0
<b>2</b>	<b><i>UAE-Abu Dhabi</i></b>	<b><i>Abu Dhabi Investment Authority</i></b>	<b><i>\$ 773.0</i></b>
<b>3</b>	<b><i>Saudi Arabia</i></b>	<b><i>SAMA Foreign Holdings</i></b>	<b><i>\$757.2</i></b>
<b>4</b>	<b>China</b>	<b>China Investment Corporation</b>	<b>\$652.7</b>
<b>5</b>	<b>China</b>	<b>SAFE Investment Company</b>	<b>\$567.9</b>
<b>6</b>	<b><i>Kuwait</i></b>	<b><i>Kuwait Investment Authority</i></b>	<b><i>\$548.0</i></b>
<b>7</b>	<b>China-Hong Kong</b>	<b>Hong Kong Monetary Authority Investment Portfolio</b>	<b>\$400.2</b>
<b>8</b>	<b>Singapore</b>	<b>Government of Singapore Investment Corporation</b>	<b>\$320.0</b>
<b>9</b>	<b><i>Qatar</i></b>	<b><i>Qatar Investment Authority</i></b>	<b><i>\$256.0</i></b>
<b>10</b>	<b>China</b>	<b>National Social Security Fund</b>	<b>\$240.0</b>
<b>11</b>	<b>Singapore</b>	<b>Temasek Holdings</b>	<b>\$177.0</b>
12	Australia	Australian Future Fund	\$95.0
<b>13</b>	<b><i>UAE-Abu Dhabi</i></b>	<b><i>Abu Dhabi Investment Council</i></b>	<b><i>\$90.0</i></b>
14	Russia	Reserve Fund	\$88.9
<b>15</b>	<b>South Korea</b>	<b>Korea Investment Corporation</b>	<b>\$84.7</b>
16	Russia	National Welfare Fund	\$79.9
17	Kazakhstan	Samruk-Kazyna JSC	\$77.5
18	Algeria	Revenue Regulation Fund	\$77.2
19	Kazakhstan	Kazakhstan national Fund	\$77.0
<b>20</b>	<b>UAE- Abu Dhabi</b>	<b>International Petroleum investment Company</b>	<b>70.0</b>
<b>21</b>	<b><i>UAE- Abu Dhabi</i></b>	<b><i>International Petroleum Investment Company</i></b>	<b><i>\$68.4</i></b>
22	Libya	Libyan Investment Authority	\$66.0
23	Iran	National Development Fund of Iran	\$62.0
<b>24</b>	<b><i>UAE-Abu Dhabi</i></b>	<b><i>Mubadala Development Company</i></b>	<b><i>\$60.9</i></b>
25	US –Alaska	Alaska Permanent Fund	\$51.7

Note: East Asian SWFs are in bold and Arab Gulf SWFs in bold plus italics.

Source: Sovereign Wealth Fund Institute.

## **The Arab Gulf and Global Policy Agendas**

Until the early 1970s, the nations of the Arab Gulf played only marginal roles as global agenda setters. Pax Americana was strong--in all its military, political, economic, and financial dimensions—and Western institutions dominated global media as well. To the extent that alternate agendas existed, they came from the Soviet Union or broad groups of non-aligned nations based outside the Islamic world, such as the Bandung Conference or the Group of 77.

Events conspired over the ensuing decades, to create a much more diverse global agenda-setting process, in which the Arab Gulf has come to play a significant role. First, the break-up of the Bretton Woods system, ensuing currency realignment, and the Oil Shocks of the 1970s magnified the leverage of surplus countries, such as Germany, Japan, and the oil producers. Iran was marginalized by its 1979 revolution, but the Gulf Arabs remained in the global mainstream, with rising resources—both physical and financial-- to deploy. The Afghan conflict of the 1980s; the Gulf War of 1991, in which American superpower and its allies intervened on their behalf; and the ensuing collapse of the Soviet Union all enhanced the global importance of the Gulf Arab states, and their leeway to play a more proactive and substantial role on the international stage.

Following “9/11”, the credibility of the Arab Gulf on global issues was thrown into question in some quarters by the suspect role of their civil societies, especially that of Saudi Arabia, in fomenting Islamic fundamentalism. Later in the decade of the 2000s, however, the proactive role of Gulf Arab elites in contributing to global education, communication, and cultural advance became clear. Major trans-regional linkages between Western universities, art museums, mass media, and sporting events, on the one hand, and Gulf benefactors on the other began to emerge, bringing the Gulf into an increasingly central role within the world community.

Over the past decade, fiscal constraints in the West have also enhanced the leverage of the Arab Gulf. Burdened by interminable wars in Iraq and Afghanistan, and a resulting mountain of debt totaling \$4-6 trillion, or around 30 percent of US GDP,<sup>11</sup> the United States became more amenable—and indeed insistent—on regional burden-sharing. The proactive roles that Qatar, and recently the UAE have begun to play since 2011, on security issues ranging from Libya and Syria to combatting the Islamic State, have demonstrated the Gulf’s rising regional influence and interdependence with the West.

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<sup>11</sup> Figures from the Harvard University Kennedy School of Government’s 2013 report on the cost of the Iraq and Afghanistan Wars, as follows: Global Research News, “US Wars in Afghanistan, Iraq to Cost \$6 trillion”, September 20, 2013, at: <http://www.globalresearch.ca/us-wars-in-afghanistan-iraq-to-cost-6-trillion/5350789>. According to the Harvard report, a \$5 trillion war cost would represent roughly 20 percent of the total amount added to the US national debt between 2001 and 2012.

On the world stage, the Gulf nations, as well as Gulf civil institutions, have also become more proactive in their agenda-setting efforts. Al Jazeera, based in Qatar, has emerged as a major global media outlet, with a significant presence in the United States, since buying Current TV from its founder, former Vice President Al Gore, in January, 2013.<sup>12</sup> The UAE has also substantially expanded its public diplomacy in Washington, D.C., ranking as the fifth-most active lobbying nation in the US national capital in 2014,<sup>13</sup> and unveiling the Emirates Leadership Initiative at Harvard University's Kennedy School of Government.<sup>14</sup> Similarly, Qatar developed a major strategic partnership with the Brookings Institution in Washington, D.C.<sup>15</sup> Both countries also successfully invited major American universities to establish campuses on their soil.

### **In Conclusion**

A century ago, the Arab Gulf was known mainly for its pearl oysters and abundant fishing grounds. Five decades ago its global role was still marginal. Yet spurred by the historic transformation of world affairs since

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<sup>12</sup> The reported sale price was \$500 million for Current TV, in which Gore held a 20 percent interest. See "Al Gore sells Current TV to Al-Jazeera, nets reported \$100 million", [FoxNews.com](http://www.foxnews.com), January 3, 2013, at: <http://www.foxnews.com>.

<sup>13</sup> Kent E. Calder. *Asia in Washington: Exploring the Penumbra of Trans-National Power*. Washington, DC: Brookings Institution Press, 2014, p. 91.

<sup>14</sup> The Emirates Leadership Initiative provides full-tuition scholarships at the Kennedy School, plus health insurance and a living stipend, for up to ten candidates a year from the UAE and other Arab countries. It was funded by a gift of \$15 from the government of the UAE. See Emirates News Agency, "HKS launches Emirates Leadership Initiative", November 10, 2014, at: <https://www.warm.ae/en/news/emirates/1395290700925.html>.

<sup>15</sup> The Qatar Brookings project involved a \$14.8 million donation, over four years, to Brookings, which also has helped fund a Brookings affiliate in Qatar and a major project on US relations with Islamic world.

the early 1970s, due to the breakup of Bretton Woods, two tumultuous Oil Shocks, and the collapse of the Soviet Union, and other momentous developments, the Gulf has gained greatly enhanced centrality in world affairs.

The Arab Gulf has a naturally potent role on the global energy stage, flowing from its dominant share of world hydrocarbon reserves. As global growth proceeds, fueled by the rise of the teeming populations of China, India, and Southeast Asia, energy demand will almost inevitably surge, and the Gulf, as low-cost producer, will no doubt benefit greatly. Most nations of the Arab Gulf have low populations and massive reserves, so they should grow even more wealthy, although the scale of their future windfalls will be limited by rising domestic needs as well.

As the Gulf's affluence rises, its global significance naturally transcends energy alone, and moves into finance. The Gulf has already become one of the two great creditor regions of the world, and that pattern has solidified. Over the past decade the role of the Gulf has expanded even beyond finance and energy into global policy cooperation and global agenda-setting. Although the Gulf's future contribution in that complex realm remains uncertain, it is a topic of major importance for all the world, and a major focus of the research to follow.

## **CHAPTER TWO:** **CLASSICAL CONFIGURATIONS: THE U.S. AND JAPAN IN THE GULF**

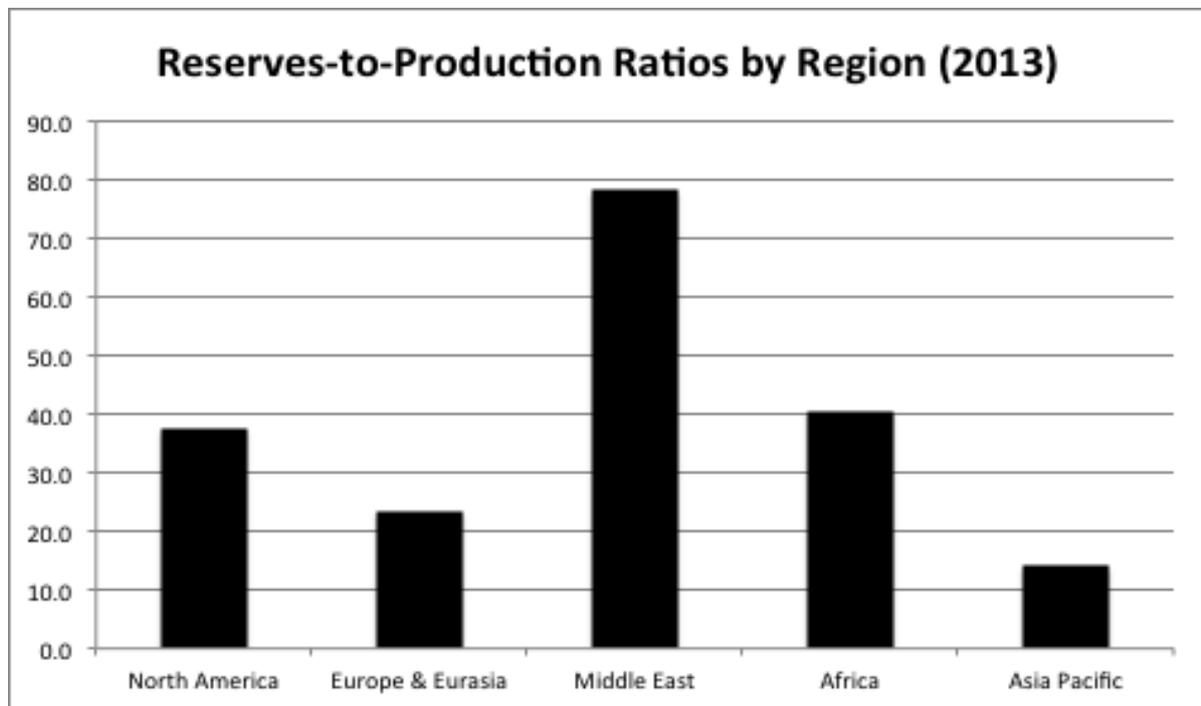
The world needs oil, and the ultimate source of hydrocarbons is in the Gulf. So the Arabian Gulf has self-evident global geo-economic importance, as we saw in Chapter One. The Gulf also, as will see in Chapter Two, has particular importance for the United States and Japan, although in different ways for the two countries. We will explore the contrasting importance of the Gulf for the two countries along three dimensions: energy, security, and development assistance. Through this inventory, we will gain deeper insight into the complementary capabilities of the US and Japan in the Gulf, and into how those unilateral capabilities might be mobilized or realigned to support emerging common needs.

### **Energy**

As we have seen, a remarkable share of the world's conventional hydrocarbon reserves are concentrated in the Arabian Gulf—roughly half of the conventional oil and two fifths of the conventional gas proven reserves on earth. The massive scale of reserves, and the limited scale of local demand in the Gulf mean that reserve to production ratios are extremely high. As indicated in Figure 2-1, so-called “R/P ratios” in the Gulf are extremely long. At current rates of production, the reserves of Kuwait

will last 115 years, those of the UAE almost 108 years, and those of Saudi Arabia nearly 75 years.

**Figure 2-1: THE CONCENTRATION OF HIGH OIL R/P RATIOS IN THE GULF**



Source: BP *Statistical Review of World Energy*, June 2014

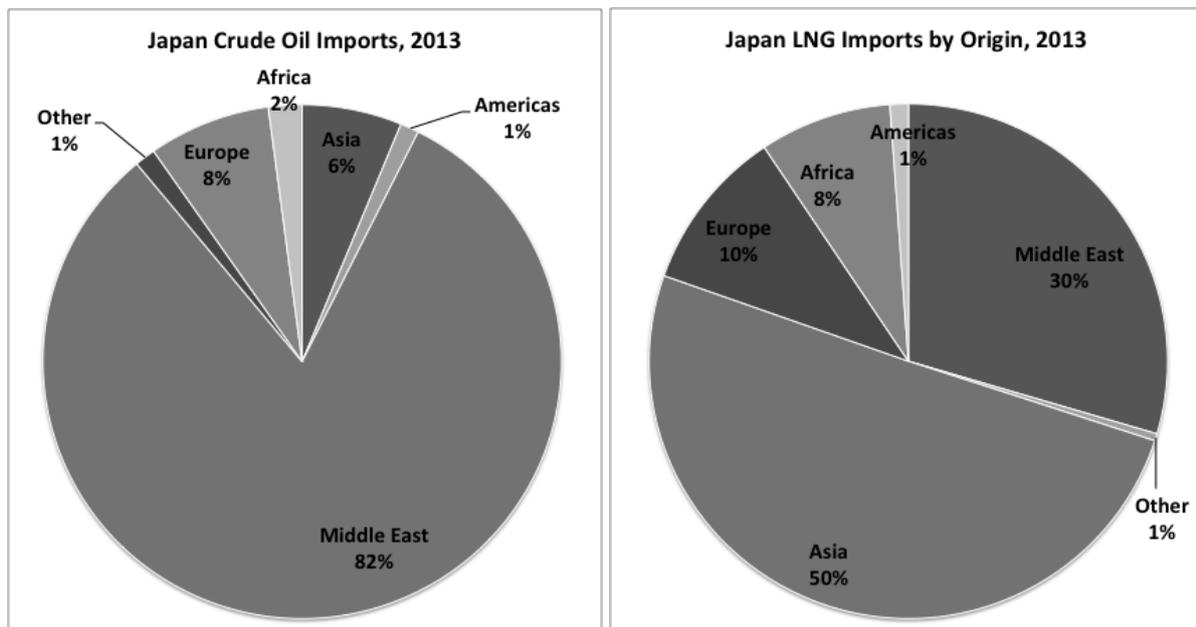
Given the heavy concentration of conventional oil reserves in the Gulf, the relatively low level of local demand, and its substantial accumulated financial resources, the largest of the Gulf producers, Saudi Arabia, has traditionally wielded considerable leverage over global oil prices. Ever since the early 1970s, when the United States became a major oil importer, Saudi Arabia has wielded formidable market power over crude oil prices, forcing them upward by curtailing production, and downward by expanding production. Saudi production decisions have, through their

impact on global oil prices, also had major geopolitical consequences—helping to bankrupt the oil-exporting Soviet Union in the late 1980s, for example, leading to its ultimate collapse at the end of 1991.

Japan and the United States contrast sharply in their relative dependence on both oil and gas supplies from the Gulf. Japan has virtually no domestic oil or gas reserves. It imports well over 80 percent of its total oil consumption, and 30 percent of its natural gas, from the Arabian Gulf alone, as indicated in Figure 2-2a.

**Figure 2-2: US-JAPAN ASYMMETRIES IN GULF ENERGY DEPENDENCE**

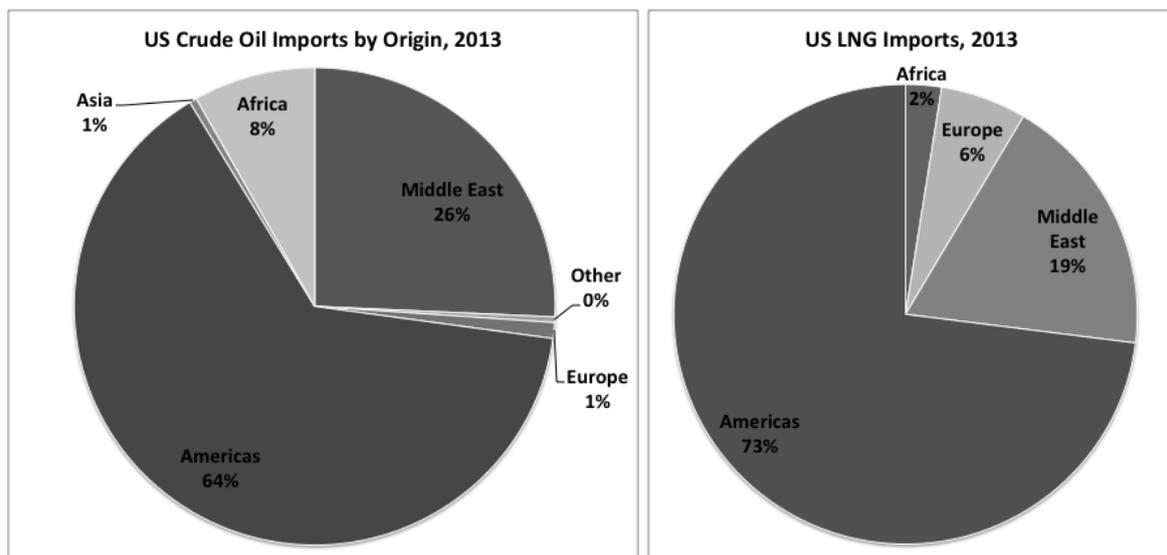
**a) Japanese Energy Dependence on the Gulf**



Source: Crude oil data: International Energy Agency, Oil Information, 2014; LNG data: International Gas Union, World LNG Report, 2014 Edition.

The United States, by contrast, imports only 15 percent of its oil. Of that import share, only 19 percent comes from the Arabian Gulf, as indicated in Figure 2-2b. Furthermore, the US is virtually self-sufficient in gas.<sup>16</sup> Indeed, the U.S. will begin exporting shale gas from Louisiana early in 2016.

**Figure 2-2: b) America’s Diversified Energy Supplies**



Source: Crude oil data: IEA, *Oil Information*, 2014; LNG data: IGU, *World LNG Report*, 2014 Edition.

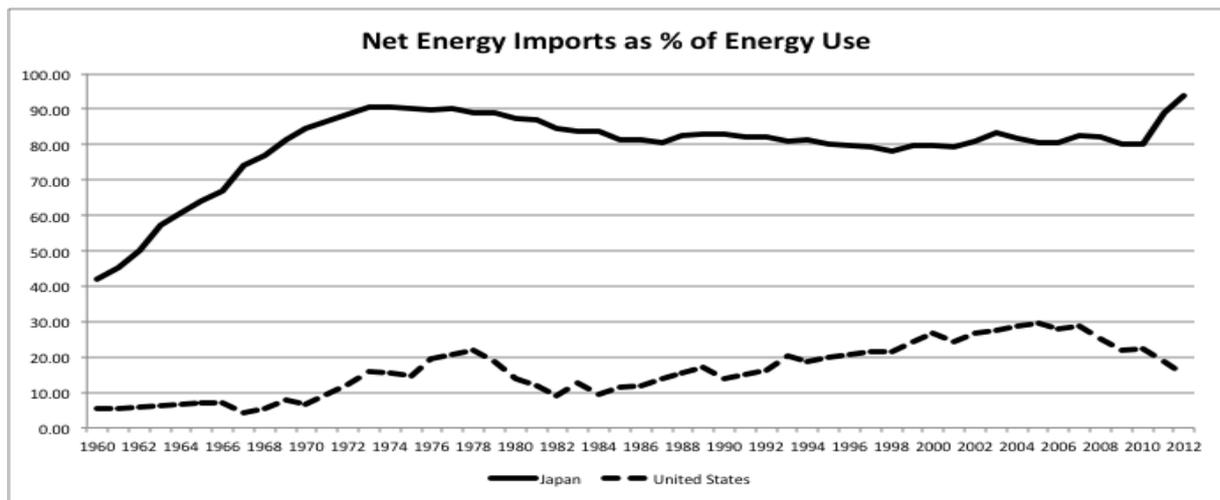
Overall, Japan imports well over 90 percent of its energy, as indicated in Figure 2-2c, whereas the US imports under 10 percent. And US import dependence has been declining steadily, thanks to expanding shale gas and shale oil production, since around 2005. Meanwhile, since 2011 Japanese import dependence has been rising sharply, due to the closure of nuclear plants following the Fukushima accident. Japan, in short, is growing

<sup>16</sup> Statistics from the World Bank and the International Energy Agency.

increasingly Gulf-dependent in energy since Fukushima, even as the US moves in the opposite direction.

**Figure 2-2:**

**c) US-Japan Energy Dependence in Comparative Perspective (1960-2012)**



Source: World Bank, “World Development Indicators”

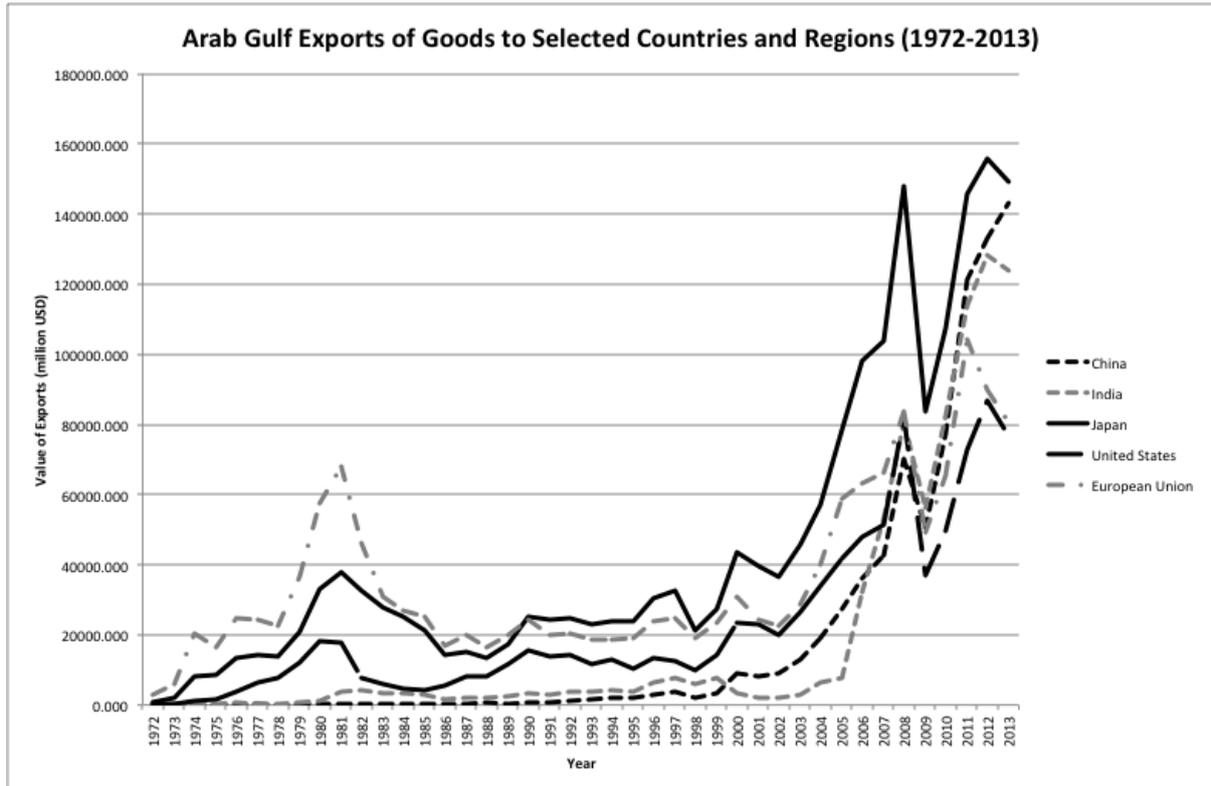
**Japan’s Prominent Role as a Gulf Customer**

As a consequence of Japan’s heavy Gulf dependence, and the massive size of its economy, that country also enjoys remarkable yet poorly understood market preeminence in the Arabian Gulf. Overall, at the end of 2013 it remained the largest importer in the world from the Gulf, as indicated in Figure 2-3a. Its imports of goods from the Gulf, almost all hydrocarbons, were larger than those of China, India, the European Union, or the United States. On the Arab side of the Gulf, Japan’s preeminence was especially pronounced, since China’s imports were much more heavily oriented toward Iran than those of Japan. This is demonstrated in Figure 2-

3b. The gap between Gulf exports to Japan and exports to China remains large when Iran and Iraq are excluded from the calculation.

**Figure 2-3: NATIONAL SHARES OF ARABIAN GULF EXPORTS OF GOODS**

**a) Arabian Gulf Exports of Goods, including Iran**



Source: IMF Direction of Trade Statistics

## b) Arabian Gulf Exports of Goods, Japan vs. China



Source: IMF [Direction of Trade Statistics](#)

Gulf exports (mostly oil and gas) to Japan and China have evolved in rather different and strategically important ways, as indicated in Figure 2-4. Total Japanese and Chinese imports from the Gulf have correlated very closely ever since the early 1980s. Japanese imports, however, are drawn much more heavily from the six GCC nations, while China has imported more extensively from Iran and Iraq. The gap in low Japanese and high Chinese reliance on Iran and Iraq has deepened sharply since 2010, due to (1) sanctions against Iran (which Japan has observed more rigorously); and

(2) Iraq's decision to grant new oil leases, from which China has benefited more extensively than Japan.

There is some significant variation in Japan's reliance on particular oil producing nations—a variation which has broader geopolitical implications. Despite Tokyo's longstanding friendly relations with Iran, which date back to the days of the Russo-Japanese War (1904-1905), Japan has cut back sharply on oil imports from Iran since 2008-2009, in solidarity with Western sanctions against the Iranian nuclear program. It does, however, retain heavy dependence on Saudi Arabia (34 percent); the UAE (24 percent); and Qatar (11 percent) in oil; and Qatar (18 percent) in liquefied natural gas.<sup>17</sup>

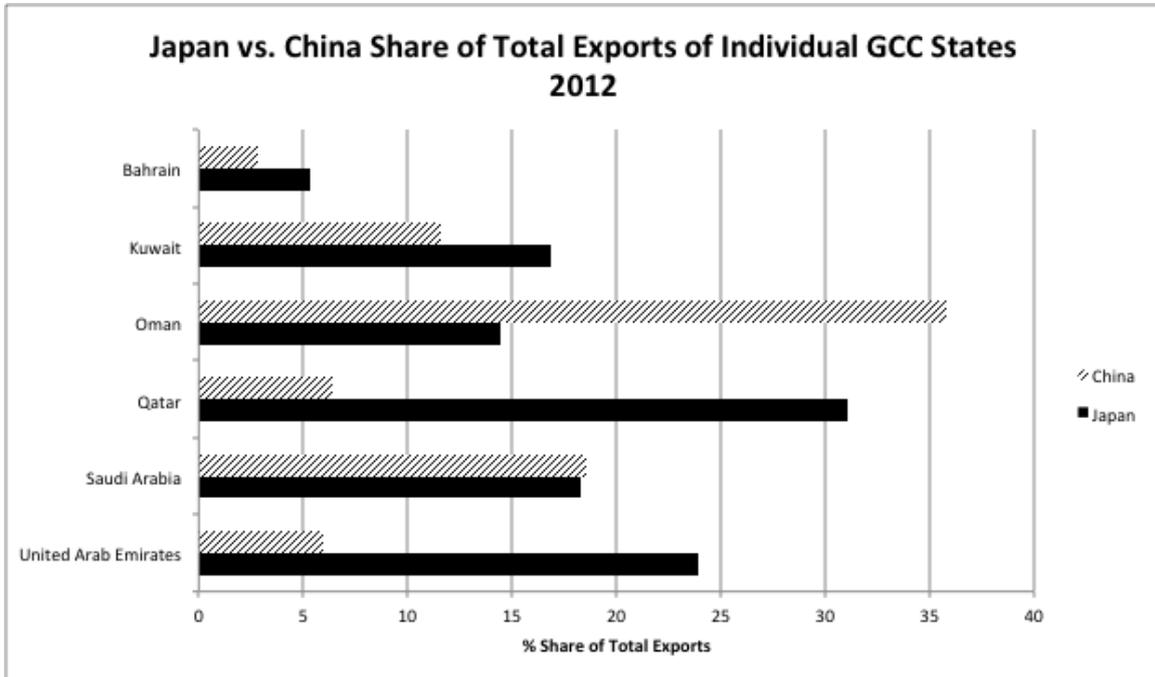
Japan is a particularly important customer for Qatar (LNG) and the UAE, taking 31 and 24 percent respectively of national exports in the two cases, as indicated in Figure 2-4. As Figure 2-4 also suggests, Japan is a more important market than China for most of the Gulf Arab states—except Oman, where the reverse is true. For Saudi Arabia, the importance of Japan and China as markets is almost evenly matched, although Chinese oil imports from Saudi Arabia have been growing very rapidly of late, due to sanctions against Iran.

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<sup>17</sup> BP. Review of World Energy, 2014 edition.

**Figure 2-4:**

**CONTRASTING PATTERNS OF JAPAN-CHINA TRADE WITH THE GULF**



Source: Observatory of Economic Complexity by Massachusetts Institute of Technology

American energy relations with the Gulf are much simpler than those of Japan or China. Fundamentally, the only Gulf nation from whom the US imports significant amounts of oil or gas directly is Saudi Arabia. The US military, however, does have more significant energy relationships with the Gulf, through its non-US operations in Europe, the Middle East, and Asia. Indeed, the Gulf has been a major supplier of US military operations abroad ever since the Korean War.<sup>18</sup>

<sup>18</sup> On US military reliance on Persian Gulf oil, see Michael A. Palmer. Guardian of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992. New York: The Free Press, 1992, p. 45ff.

## Security

In the security realm, it is the United States which has traditionally played the preeminent role in the Gulf, even though its energy imports from that region have been modest, especially compared to Japan. It began playing a significant role in Gulf security during World War II, when it funneled substantial Lend-Lease supplies into the Soviet Union via Iran, and provided financial assistance to the Iranian government. It was British and Soviet forces that actually occupied Iran, beginning in August, 1941, but the United States played a significant role behind the scenes.<sup>19</sup>

On the Arab side of the Gulf, the US security role began with the historic meeting between Franklin D. Roosevelt and Saudi King Abdul Aziz, aboard the frigate *Quincy*, in the Great Bitter Lake segment of the Suez Canal during February, 1945.<sup>20</sup> Shortly thereafter the US opened a SAC airbase at Dhahran in the eastern province of Saudi Arabia, and in 1947 a small naval base in Bahrain, with Manama ultimately becoming the headquarters of the US Fifth Fleet. Britain, however, remained the preeminent outside political-military power in the Gulf until after the independence of Kuwait (1961); and Oman (1964); as well as Qatar,

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<sup>19</sup> On World War II US and Anglo-Russian involvement in Iran, see Nikki R. Keddie. Modern Iran: Roots and Results of Revolution. New Haven: Yale University Press, 2003, pp. 105-131.

<sup>20</sup> "Today in History: King Abdulaziz, and President Roosevelt Meeting", at: <http://susris.com>.

Bahrain, and the UAE in 1971.<sup>21</sup> It was not until Saddam's invasion of Kuwait in August, 1990 that the US significantly expanded its direct military presence in the Gulf and its environs.

The low profile of the United States in the Arabian Gulf until 1990 may seem paradoxical, given the large American investments in the Aramco oil consortium in Saudi Arabia, and the growing importance of Gulf oil and gas to American allies in Europe and East Asia. Yet it was not accidental. For many years, especially during the Nixon and Ford administrations (1969-1977), US security interests were represented by proxy through the Shah of Iran. This was complemented by powerful carrier-based naval forces in the Mediterranean and the Arabian Sea.

After the Iranian Revolution of 1979, the US accelerated development of its important air and naval base at Diego Garcia, 2500 miles south of the Gulf in the Indian Ocean. It also created a Rapid Deployment Force, based in the continental United States, which was explicitly tasked with responding to Middle East contingencies. Yet Washington did not expand its basing network in the Arab Gulf region until 1990, in part due to the delicacy of positioning US forces in the heart of the Arab world, while the US also still maintained strong relations with Israel.

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<sup>2121</sup> Shohei Sato, "Britain's Decision to Withdraw from the Persian Gulf, 1964-1968: A Pattern and a Puzzle", at: <http://koochehcdn.33.amazonaws.com>.

Saddam Hussein's invasion of Kuwait showed the apparent need for a more immediate and direct American presence in the Gulf. Following the Gulf War of 1991, the US expanded its local basing network to include US Army facilities in Kuwait; a new US Air Force base at al-Udeid in Qatar; and discreet use of Prince Bandar Air Force Base in Saudi Arabia; together with intensified use of Incirlik AFB in Turkey, in support of the northern Iraq no-fly zone, intended to inhibit Saddam's suppression of the Kurds.<sup>22</sup> Responding to local fundamentalist backlash in Saudi Arabia, the US relocated from its sprawling facilities at Prince Bandar, but has maintained its expanded presence elsewhere in the Gulf.

Japan has not had an extensive military presence in the Gulf, but the presence that it does have, both in the Gulf and in its environs, has increased remarkably since the end of the Gulf War. Japanese minesweepers deployed to the Gulf in the spring of 1991, moving west of the Strait of Malacca for the first time in Japanese post-World War II history. Following the "9/11" terrorist attacks on the United States, Prime Minister Koizumi sent Maritime Self Defense forces to the Indian Ocean on an ongoing basis, where they remained until January, 2010. Japan has also actively participated in anti-piracy operations in the Indian Ocean and the Gulf of Aden since 2009, and operates a de facto naval base at Djibouti, near

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<sup>22</sup> On Arabian Gulf-related basing of the US military, see Kent E. Calder. Embattled Garrisons, p. 29 and pp. 51-52.

the entrance to the Red Sea, which involves Japan's first status of forces agreement (SOFA) of the postwar era. Other political-military options are emerging for Japan in the environs of the Gulf that will be discussed in future chapters. Suffice it to say here that Japan's security involvement in the Middle East is highly dynamic, with public support rising, following the brutal murder of two Japanese citizens, Kenji Goto and Haruna Yukawa, in January, 2015.

### **Diplomatic Engagement and Overseas Development Assistance**

As in the political-military field, US diplomatic involvement in the Gulf has historically been much more intense than in the case of Japan. The key political driver of this involvement has for at least four decades no doubt been the security of Israel. It is important to remember also, however, that in the early days of Israel's existence the US was distinctly ambivalent about supporting it; the major arms supplier in Israel's 1948 war of independence, for example, was Communist Czechoslovakia.<sup>23</sup> During the 1956 Suez conflict it was Britain and France that conspired with Israel to attack Egypt, which had nationalized the Suez Canal; and it was the Eisenhower administration that pressured the Israelis to withdraw. The US did not formally recognize Israeli gains in the Six Day War of 1967,

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<sup>23</sup> Czechoslovakia provided assistance to Israel in the name of the USSR-, and its instructions. See Aryeh Dayan, "The Communists who saved the Jewish state". Czechoslovakia provided assistance to Israel in the name of the USSR, and under its instructions! See also Aryet Dayan, "The Communists who saved the Jewish state", Haaretz, May 9, 2010.

including the unification of Jerusalem, and pressed the Israelis to surrender their gains on the west side of the Suez Canal in 1973 as well. So although the US has armed and re-supplied Israel at crucial moments, in a pattern of intensified defense cooperation since the late 1960s, it has also pressured Israel for concessions, and striven to keep open lines of communication to key leaders in the Gulf.

For more than three decades, from the Iranian Revolution of 1979 until the Arab Spring (2011), American diplomacy in the Middle East focused on securing the support of Egypt, Turkey, and Israel— consequential nations along the Mediterranean coast, as noted in Figure 2-5. In Turkey and Egypt, Western-oriented militaries were powerful, and oriented toward close ties to the West; they turned a blind eye to close US-Israeli cooperation, and even at times engaged in tacit cooperation with Israel themselves, since all had strong anti-terrorist concerns. Indeed, Turkey, the US, and Israel engaged regularly in joint military exercises until 2009.<sup>24</sup>

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<sup>24</sup> Following Israel's December 2008 invasion of Gaza and subsequent occupation and blockade of that territory, Turkey cancelled the international component of "Anatolian Eagle", in which Israeli forces were to have exercised alongside, and NATO forced. It did not invite Israel to observe Anatolian Eagle 2010 or subsequent maneuvers. See Chris Zambelis, "Sino-Turkish Strategic Partnership: Implications of Anatolian Eagle 2010", Jamestown Review, January 14, 2011, at: <http://www.jamestown.org>.

**Figure 2-5: US REGIONAL ALLIES, 1979-2011: EGYPT, TURKEY, AND ISRAEL**



Following the Arab Spring of 2011, these dynamics significantly changed. Egypt and Turkey, with Islamist governments, dropped out of the implicit US-oriented coalition, isolating Israel. Saudi Arabia, alarmed at uprisings around its periphery, including Bahrain, as well as the rise of Iran, increased military spending, and intensified pressure against liberal elements, as in Qatar. Ultimately a military coup in Egypt during July, 2013, together with the rise of the radical fundamentalist Islamic State inhibited liberal tendencies across the Arab world, except Tunisia, although they failed to restore the US-oriented trilateral coalition of the previous several decades. Although the Obama administration has prevailed variously on the UAE, Jordan, and Qatar, among others, in its search for diplomatic

cooperation, the stability and predictability of earlier years has been fading, while US relations with Israel have eroded as well.

Japan has of course not been as involved with the Gulf and surrounding areas diplomatically as has the United States. And it has lacked the military presence that has given leverage to US policy. Yet Japan has built on a positive heritage of goodwill in the region. Its stable, predictable role as a large-scale energy consumer; its lack of imperialist pretensions; and its generous development-assistance program, all provide building blocks for a more substantial and proactive future role.

Japanese diplomacy and overseas development assistance have not generally focused directly on the Gulf, except during the Gulf War of 1991, when they provided important support to US forces and those of allied Arab nations.<sup>25</sup> Yet Japanese development assistance has nevertheless played an important role in stabilizing poorer nations around the periphery of the Arabian Gulf, in whom both the US and the Arab Gulf states have special strategic interest. As noted in Table 2-1, the largest Japanese bilateral grants have gone to Afghanistan, Morocco, Palestine, Turkey, and Yemen, in that order. Three of these five (Afghanistan, Palestine, and Yemen) are potentially unstable, and therefore countries where Japanese peace-building efforts can be particularly constructive. Conversely, Japan

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<sup>25</sup> Courtney Purrington, "Tokyo's Policy Responses During the Gulf War and the Impact of the 'Iraqi Shock' on Japan", *Pacific Affairs*, Volume 65, No. 2, Summer, 1992, pp. 161-181.

has been recalling loans in Iran and Syria--countries where the international community, including the United States, has been counselling a retrenched position, involving sanctions. Japanese ODA to the Middle East is thus supporting major Western geopolitical ends.

**Table 2-1: JAPAN'S BILATERAL ODA TO MIDDLE EASTERN NATIONS, 2012**

<b>Recipient Country</b>	<b>Amount of ODA (current US\$)</b>
Afghanistan	873,580,000
Morocco	76,420,000
West Bank and Gaza	73,050,000
Turkey	33,500,000
Yemen, Rep.	24,670,000
Iran, Islamic Rep.	17,540,000
Syrian Arab Republic	6,320,000

*Source:* Net bilateral aid flows from DAC donors, Japan (current US\$), World Bank, <http://data.worldbank.org/indicator/DC.DAC.JPNL.CD>

### **IN CONCLUSION**

The United States and Japan interact with the nations of the Arab Gulf along three dimensions: energy, security, and diplomacy/development assistance. As we have seen, their respective roles are contrasting in each of the three. Japan is deeply interdependent with the Gulf in energy—indeed, at the end of 2013, Japan was the largest customer in the world for Gulf nations, in both oil and liquefied natural gas. For its part, Japan imported well over 80 percent of its entire oil consumption from the Gulf, while the US got only a tenth of its oil from that source.

In the security and diplomatic spheres, a different, and paradoxical, asymmetry appears. Despite Japan's heavy energy reliance on the Gulf, it has a remarkably low diplomatic profile there. Tokyo's political-military presence in and around the Gulf has been increasing steadily since the Gulf War of 1991, when it was virtually non-existent, with the MSDF's new base at Djibouti being a major element thereof. Japanese development assistance to unstable areas such as Afghanistan, Palestine, and Yemen does contribute significantly to peace-building in the region, but the imbalance between Japan's massive energy security stakes and its limited political-military presence in and around the Gulf still remains.

### **CHAPTER THREE:** **THE ENERGY SEA LANES IN GEOPOLITICAL CONTEXT**

Today the sea lanes from the Strait of Hormuz, across the Arabian Sea and the Indian Ocean to the Strait of Malacca and beyond to Northeast Asia carry fully one third of the oil and LNG moving in international trade.<sup>26</sup> And that substantial share will doubtless rise still higher in coming years. Yet the massive Asian sea-borne energy trade, invested with geopolitical consequences of increasing global import, was virtually non-existent sixty years ago.

Hydrocarbons began rising in industrial and strategic importance early in the twentieth century, as the Motor Age, and the era of oil-fueled steamships, began.<sup>27</sup> The Arabian Gulf began emerging as a promising source of hydrocarbons not long after, but there was little intercourse with Asia until well after World War II. The Dutch East Indies, now Indonesia, was a major energy exporter within the East Asian region, and its seemingly plentiful reserves appeared sufficient for the limited needs of a still economically stagnant part of the world.

The US military, during the Korean War, provided the first substantial energy link between East Asia and the Middle East. The United

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<sup>26</sup> Charles Emmerson and Paul Stevens. Maritime Choke Points and the Global Energy System: Charting a Way Forward. London: Royal Institute of International Affairs, January , 2012, at: <http://www.chathamhouse.org>.

<sup>27</sup> On the early history of energy usage in modern industrial society, including the Asian dimension, see Daniel Yergin. The Prize: The Epic Quest for Oil, Money, and Power. New York: Free Press, 1991.

States itself imported only insignificant amounts of Middle East oil until the 1970s, and sources less than 20 percent of its overall imports from the Gulf even today. Yet the US armed forces, with their necessarily global orientation, were much quicker to capitalize on Gulf supplies. From 1946 to 1950, for example, between 30 and 42 percent of the petroleum products moved by the US Navy originated in the Arabian Gulf.<sup>28</sup>

When war suddenly came to Korea in June, 1950, there was thus already an established tradition of US military supply from Gulf refineries—mainly in Bahrain and Saudi Arabia. That proclivity was compounded by rising post-World War II civilian demand within the US itself for State-side supplies. Furthermore, the Arabian Gulf was closer to the war zone than State-side suppliers; the Iranian side of the Gulf, while conveniently situated, was controlled first by the British, and then the anti-US Mosaddegh regime. Thus, the Korean War became the first conflict in American history where the energy supplies for US forces were sourced outside the mainland United States. And those off-shore supplies came overwhelmingly from the Arabian Gulf itself.<sup>29</sup>

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<sup>28</sup> See US Navy. Logistics Summary Reports, Logistics Reports, Command Files, OA, cited in Michael A. Palmer. Guardian of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992. New York: The Free Press, 1992, p. 270.

<sup>29</sup> For additional details, see James A. Field. A History of United States Naval Operations in Korea. Washington, D.C.: Government Printing Office, 1962, especially pp. 383-384.

The original catalyst for Asian dependence on the Arabian Gulf came from the US military, to be sure, and American forces have continued to rely heavily on the Gulf for oil supplies ever since the Korean War. Yet the deep structural dependence of Asia's economy on the Gulf was created by US and Japanese firms during the 1950s and 1960s, under the watchful eye of MITI, Japan's trade ministry.<sup>30</sup> Some early steps were taken by independent, entrepreneurial Japanese firms like Idemitsu Kosan, which broke the Western embargo on oil imports from Iran, after Mosaddegh nationalized the Anglo-Iranian Oil Company in 1951; and the Arabian Oil Company, which landed important concessions in Saudi Arabia and Kuwait during 1958 and shortly thereafter. Major Western multinationals participating in the Aramco joint venture in Saudi Arabia, particularly Mobil Oil and Esso of New Jersey (now amalgamated as Exxon-Mobil), also helped to deepen the energy relations between Northeast Asia and the Middle East, particularly during the 1960s and 1970s.

Japanese energy ties to the Arabian Gulf expanded rapidly in the 1960s, since Japanese energy demand was growing at double-digit rates, with both heavy industries like petrochemicals and consumer sectors like autos expanding rapidly. MITI was also encouraging domestic Japanese

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<sup>30</sup> MITI, of course, stands for "Ministry of International Trade and Industry." On this development, see Chalmers Johnson. *MITI and the Japanese Miracle*. Stanford: Stanford University Press, 1982, p. 297; and Chalmers Johnson. *Japan's Public Policy Companies*. Washington, D.C.: American Enterprise Institute, 1978. The formal appellation "MITI" was changed to "METI" (Ministry of Economics, Trade, and Industry) in 2000.

reliance on Middle Eastern oil, which was cheap and seemingly easy to obtain. Such reliance on far-away sources also stimulated the growth of other priority sectors of the day, such as shipping and shipbuilding.

Korea followed along much the same path of Middle East oil reliance as Japan, with the ROK's economy also growing rapidly following the interest-rate reforms and Korea-Japan normalization of 1965. Rapidly rising demand from Japan and Korea together helped to tighten global oil markets during the late 1960s, contributing to the Oil Shocks of the 1970s. The flow of hydrocarbons eastward from the Strait of Hormuz, however, did not decline. From the third quarter of 1993, China also became an importer, with its oil supplies from the Gulf rising rapidly after the Asian financial crisis of 1997-1998. Today the PRC imports slightly over three million barrels daily from the Gulf; together with Japan's three million plus, India's 1.5 million; and Korea's one million, energy flows to Asia have become the Arabian Gulf's most important single economic undertaking.<sup>31</sup>

### **Geopolitical Profile of the Energy Sea Lanes**

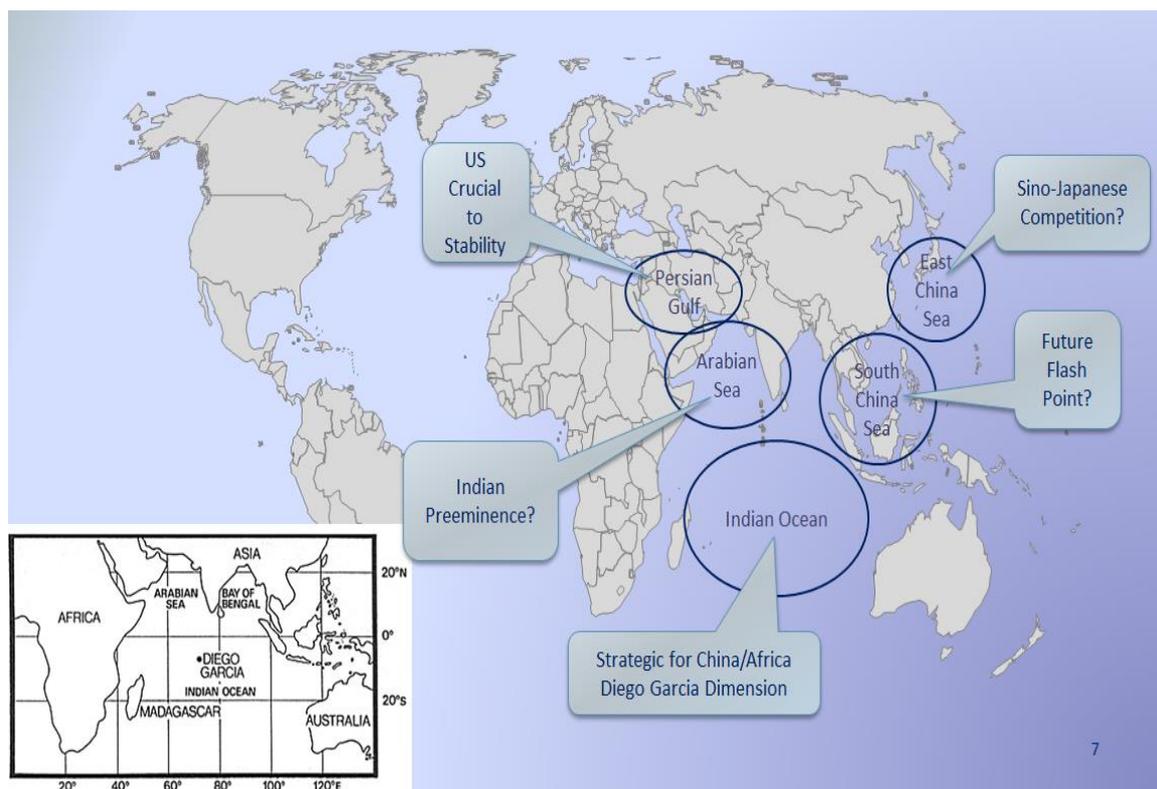
As indicated in Figure 3-1, the sea lanes that bring invaluable energy supplies from the Arabian Gulf and other distant suppliers to the nations of

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<sup>31</sup> At the end of 2013, Japan was still, by a small margin, the largest importer of Gulf oil, at 3.310 million barrels/day, compared to 3.262 million barrels/day for China.

Asia are lengthy, with the distance from the Gulf to the furthest major import points (Pusan and Yokohama) being almost 10,000 kilometers.<sup>32</sup> Yet those sea lanes are not homogeneous in geopolitical terms. Analysts normally speak generically about the “energy sea lanes”, to the extent that they focus on those important economic arteries at all. Yet it is important to distinguish much more precisely among different sub-units of these long trade arteries, since different sections raise very distinct geopolitical and political-military issues that need analytical separation.

**Figure 3-1: GEOPOLITICAL PROFILE OF THE ENERGY SEA LANES**



<sup>32</sup> Yokohama is 9656 kilometers from the Strait of Hormuz. Mumbai is only 1100 kilometers from Hormuz, while the US East Coast is around 13,000 kilometers away. On the details, see Kent E. Calder. *The New Continentalism: Energy and Twenty-First Century Eurasian Geopolitics*. New Haven: Yale University Press, 2012, p. 34.

It seems appropriate to distinguish five geopolitically distinct segments of the sea lanes between Northeast Asia and the Arabian Gulf, which might appropriately be called “theaters”. These segments can be differentiated in terms of their geographic distance from the large Asian powers (China and India); and the political-military capabilities in each theater of the major powers that bring forces to bear in the sea lanes (China, Japan, Korea, India, and the United States). As will become clear through concrete analysis, the relative leverage of the major powers, including the United States, varies sharply with the geopolitical terrain, and it is difficult to generalize sweepingly about either influence in the sea lanes between Northeast Asia and the Gulf, or conditions for maintaining and enhancing such influence.

- (1)        *The East China Sea.*** This is the portion of the energy sea lanes closest to China itself, lying immediately offshore its most populated centers, including Shanghai, its largest city. Taiwan is also close by, only 180 kilometers across the Taiwan Strait from mainland China’s economic heartland. This is the portion of the energy sea lanes from Northeast Asia to the Gulf that is most sensitive to China, from a security standpoint, and also the portion where Chinese power projection capabilities are strongest, through its brown-water navy;

its land-based Second Artillery Force; and its missile-centric area-access denial capabilities.<sup>33</sup>

**(2) *The South China Sea.*** This is marginally less central to Chinese security than the East China Sea, as it is further removed from the Chinese heartland. Yet it is nevertheless an area close to China where Chinese presence, power projection capability, and territorial claims have been expanding rapidly of late.<sup>34</sup> Chinese land-based capabilities, oriented toward missile-intensive area-access denial against US naval assets, come into play, as in the East China Sea.

Additionally, one of China's major naval bases is located at Zhanjiang in southern Hainan. China has also built a major airfield in the Paracel Islands, taken from South Vietnam in 1974, and established all-weather, semi-permanent structures atop small atolls, to strengthen its claims on Scarborough and Mischief Reef, also claimed by the Philippines.<sup>35</sup> In early 2015, it also moved aggressively to reinforce its claims through large-scale land-fill

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<sup>33</sup> Greg Chaffin. *Building an Active, Layered Defense: Chinese Naval and Air Force Advancement*. Washington, D.C.: National Bureau for Asian Research, September 10, 2012, at: <http://nbr.org>.

<sup>34</sup> See Robert D. Kaplan. *Asia's Cauldron: The South China Sea and the End of a Stable Pacific*. New York: Random House, 2014.

<sup>35</sup> In 1995 the PRC built makeshift structures on Mischief Reef, and upgraded them in 1999. In 2012 the Philippines conceded a ten-week military standoff to China by withdrawing its naval vessels from waters surrounding Scarborough Reef, although it has not retracted its territorial claims. In March, 2014, the Chinese Coast Guard began disrupting access by the Philippines to its naval outpost on Second Thomas Shoal. See Ely Ratner. *Learning the Lessons of Scarborough Reef*. Washington, D.C.: Center for a New American Security, at: <http://www.cnas.org>; and US-China Economic and Security Review Commission. *Report to the Congress*, November, 2014, at: <http://origin.www.uscc.org>.

operations on at least five tiny reefs, including Fiery Cross.<sup>36</sup>

Emerging Chinese air power and amphibious capabilities, including para-military and coast guard, as well as PLA-N, are well-suited to the topography of the South China Sea, as are US Wasp-class amphibious assault ships, as well as the Japanese Hyuga and Izumo-class helicopter-destroyers.

**(3) *The Indian Ocean.*** This portion of the energy sea lanes to the Gulf is a region of un-assailed American geopolitical dominance, due to overwhelming US blue-water capabilities. The United States has eleven full-scale carrier battle groups, one of them deployed in Japan, while none of the other powers of the region have any at all. China has recently done sea trials on its single carrier, the *Liaoning*, but the PLA-Navy still lacks critical support capabilities for its carrier, or adequate training for its carrier pilots. China does have rising submarine capabilities that could pose an increasing asymmetric challenge to US blue-water capabilities, but its own lack of carriers will be a continuing weakness for several years to come, in the view

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<sup>36</sup> China is apparently converting tiny reefs, once barely visible above water, into islands large enough to handle military hardware, personnel, and recreation centers for workers. On Fiery Cross Reef, it is building a runway expected to be around 10,000 feet long. See, for example, Helene Cooper and Jane Perlez, "U.S. Flies Over a Chinese Project at Sea, and Beijing Objects", *New York Times*, May 22, 2015.

of many specialists.<sup>37</sup> India also has a small carrier, like the Chinese, but is similarly lacking in support capabilities.

In addition to its carriers, the United States also has the advantage of a major base at Diego Garcia, in the depths of the Indian Ocean, with major integrated naval and air capabilities, as well as pre-positioned equipment and munition stores. Diego is a principal supply facility of the Maritime Sealift Command (MSC). The MSC supports the US Rapid Deployment Force in the Middle East, and is used jointly by the US Navy and US Air Force, although formally located in the British Indian Ocean Territory. Diego is also one of five control bases worldwide for the Global Positioning System, operated by the US military.

The facilities at Diego were built during the late 1970s and the 1980s, with construction accelerated by the 1979 Iranian Revolution. It will likely require little incremental capital expenditure for many years to come.<sup>38</sup> These bases allow the United States to project power four-thousand kilometers northward, into the heart of the Middle East, at remarkably low cost; neither China or India, nor any other

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<sup>37</sup> US-China Economic and Security Review Commission. Report to the Congress: Executive Summary and Recommendations, November, 2014, at: <http://origin.www.uscc.gov>.

<sup>38</sup> On Diego Garcia strategic capabilities, and their historical evolution, see Kent E. Calder. Embattled Garrisons, pp. 183-187.

major power, have equivalent facilities in the Indian Ocean, or the prospect of gaining them.

Although the Chinese lack a military strong point analogous to Diego Garcia, they have built a series of communications and refueling stations popularly known as the “string of pearls”. These outposts help to provide logistical support, as Chinese forces move to project political-military power westward across the Indian Ocean toward the Gulf. China has, for example, established a communications station offshore Myanmar; as well as port facilities in Bangladesh and Sri Lanka, about which more will be said in Chapter Seven.

**(4) *The Arabian Sea.*** This portion of the energy sea lanes is situated west of India, east of the Arabian peninsula, and offshore Pakistan. It lies much closer to the Indian sub-continent than it does to China, and is an area also of major traditional American military activity, especially by carrier battle groups, due to its proximity to the Gulf. The Arabian Sea is hence a segment of the energy sea lanes to the Gulf where it is still difficult for China to assert its influence.

China has, however, worked to maintain some logistical presence along the coast of the Arabian Sea, through the Gwadar port in Pakistani Baluchistan, less than four hundred kilometers from the

entrance to the Arabian Gulf. Gwadar, built with Chinese assistance and opened by Prime Minister Wen Jiabao himself in 2005, is a strategic strand in the “string of pearls” between the Strait of Malacca and the Gulf.<sup>39</sup> It was run by PSA International, a Singaporean port-services firm, from 2007-2012, but was recently returned to Chinese administration.<sup>40</sup> It currently berths both PLA-N naval vessels and commercial ships, and could have rising strategic importance in future, especially as infrastructure enabling over-land trans-shipment from Xinjiang directly across Pakistan to Gwadar becomes more developed.<sup>41</sup>

**(5) *The Strait of Hormuz and Beyond.*** Although the United States maintains its major aircraft carrier strike capabilities relevant to the Gulf in the Arabian Sea and the Mediterranean, and its long-range air force strike capabilities at Diego Garcia and in the continental United States, the US military has had basing facilities inside the Gulf at Bahrain since before the Korean War. Since the Gulf War of 1991 it has maintained Army facilities at Camp Doha in Kuwait, and a major

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<sup>39</sup> The term “string of pearls” was first used by the Pentagon, and popularized through the so-called Marshall Report, authored by Defense Department Office of Net Assessment Director Andrew Marshall, describing prospective Chinese military threats to US strategic interests in Asia. See F. William Engdahl, “Obama’s Geopolitical China Pivot”, at: <http://www.globalresearch.ca>; and Dan Lamothe, “The \$183,300 ‘Yoda’ job at the Pentagon”, *Washington Post*, January 2, 2015.

<sup>40</sup> “Pakistan-China Gwadar Port deal to be struck on 18<sup>th</sup>”, *The News.Com*, at: <http://www.thenews.com.pk>.

<sup>41</sup> Christopher Pehrson, “String of Pearls: Meeting the Challenge of China’s Rising Power across the Asian Littoral”, on the US Army War College website, at: <http://www.strategicstudiesinstitute.army.mil>.

air base at al Udeid in Qatar; for many years it also operated a low-profile presence in Saudi Arabia.<sup>42</sup>

China and India, by contrast, maintain no formal presence inside the Gulf, although China since 2010 has begun engaging in periodic military exercises with Turkey, Iran, and Russia, among others. In 2013 the Turkish government also agreed to develop a missile-defense system (FD-2000) within Turkish borders, in cooperation with the controversial China Precision Machinery Import and Export Corporation (CPMIEC).<sup>43</sup> In September, 2014 PLAN warships, including a guided-missile destroyer and frigates, voyaged to Iranian waters for the first time, to conduct joint exercises.<sup>44</sup> Between 2011 and 2014, China and Russia engaged in three sea exercises—held variously in the Mediterranean and the Pacific—and have committed to two more in 2015.<sup>45</sup>

### **IN CONCLUSION**

What is clear from a detailed review of the geopolitics of the energy sea lanes from Northeast Asia to the Gulf is six general points:

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<sup>42</sup> On the evolution of US basing presence in the Middle East, see Kent E. Calder. *Embattled Garrisons: Comparative Base Politics and American Globalism*. Princeton: Princeton University Press, 2007.

<sup>43</sup> Emre Tunc Sakaoglu, "Is Turkey Gravitating toward China?", *Turkish Weekly.net*, March 31, 2014, at: <http://www.turkishweekly.net>.

<sup>44</sup> Sam LaGrone, "Chinese ships in Iran for Joint Exercises", US Naval Institute, September 22, 2014, at: <http://news.usni.org>.

<sup>45</sup> *Ibid.*

(1) The relative capabilities and geopolitical influence of the major powers engaged along the sea lanes, including the United States, China, and India, varies substantially across the five different segments of the energy sea lanes.

(2) Broadly speaking, China is strongest at the eastern end of the sea lanes, close to its home waters, where its brown-water navy is operational, but far less influential. It has much less power projection capability, however, west of the Strait of Malacca, since it lacks a true blue –water navy.

(3) India, by contrast, is strongest at the western end of the sea lanes, and virtually invisible east of the Strait of Malacca, although it seems to be developing broader, more expansive ambitions toward the east under Prime Minister Modi. Like China, India has only brown-water capabilities now, and for the foreseeable future.

(4) Only the United States has comprehensive capabilities to project power along the entire length of the energy sea lanes, due to its unrivalled blue-water navy, including eleven carrier battle groups.

(5) Maintaining US capabilities at close to current levels is a relatively in-expensive proposition, as military expenditures go, since the major capital investments, including the carrier battle groups and facilities at

Diego Garcia, have already been made. It thus seems unlikely for the foreseeable future, that fiscal constraints alone will cause major retrenchment in American naval presence with respect to the energy sea lanes to the Gulf.

(6) Due to the varying geopolitical character of different sea-lane segments, however, there is a strong argument for collegial management of the sea lanes as a US-Japan strategic objective, based on continuing US presence and pre-eminence. This could, for example, involve joint US-Japan patrolling in the sea lanes—to the Strait of Malacca and beyond.

**CHAPTER FOUR:**  
**THE LOGIC OF THE US-JAPAN-ARAB GULF STRATEGIC TRIANGLE**

Over the past five years, there has been increased attention—both within and outside governments in both Tokyo and Washington—to the logic of US-Japan cooperation with third parties in a variety of trilateral contexts. Such cooperation can ease the economic burden of bilateral commitments, prevent redundancy, and exploit complementary skills, personal networks, and insights in the third-party partner nations. It has a particular logic in a world of fluid alignments and deepening global interdependence.

Between 2009 and 2012 the logic of trilateral cooperation involving the United States and Japan, together with an additional partner, was concretely tested in a variety of contexts. The US State Department and its partners in Tokyo initiated trilateral policy dialogues at the Track One level, that also included India, Australia, the Republic of Korea, the European Union, and—at modest level—Kazakhstan and Mongolia as well. As an indication of its seriousness regarding this concept, the East Asia and Pacific Affairs Bureau of the State Department established a new high-level position, that of Deputy-Assistant Secretary of State for Multilateral Affairs within the EAP Bureau to address such questions in the Asian context.

There is clearly a powerful argument for US-Japan cooperation with respect to the Arabian Gulf, as for several other strategic regions, in terms of the common strategic objectives that both Washington and Tokyo seek. The two countries bring contrasting capabilities, that are, however, moving toward greater symmetry in dynamic fashion. To realistically assess the logic of future US-Japan trilateral cooperation with the nations of the Arabian Gulf, it is important first to recall past patterns of involvement by Japan and the United States in the Gulf, and to assess the heritage of past practice and established precedents for the future.

### **The History and Logic of Japan's Involvement in the Gulf**

Although Japan obtains the overwhelming share of its oil, and a significant fraction of its natural gas, from the Arabian Gulf, its broader equities in the region are still relatively limited, compared to Europe and the United States. Japan's investments in the Gulf are smaller than those of other major industrialized nations. And the closest tangible Japanese geopolitical presence is at Djibouti, near the mouth of the Red Sea, where Japan maintains a Marine Self Defense Force facility, in connection with the global anti-piracy campaign.

To say that Japanese investments in the Gulf are small relative to those of Europe and the United States is not by any means to say that they

are insignificant. Inpex, for example, has held a major joint-venture investment position in Abu Dhabi for nearly half a century; the United Arab Emirates, of which Abu Dhabi is the central element in energy terms, exports close to half of its oil production to Japan.<sup>46</sup> Arabian Oil Corporation held major concessions in the Neutral Zones between Saudi Arabia and Kuwait, and operated a large refinery at Khafji, near the Saudi-Iraqi border, from December, 1957 until February, 2000.<sup>47</sup>

Japan's history of political and diplomatic involvement with the Gulf, like its investment position, has also been traditionally limited, although at times it has played an important substantive role. In contrast to the Europeans and the Americans, Japan has never been an imperial or intrusive military power in the Gulf. To the contrary, it has at times been a notable supporter of Arab or Islamic nationalism, which—together with its historic role as the first successful non-Western modernizer—has earned Tokyo a distinctive regional credibility.

Much of Japan's early credibility in the Islamic world was with the Turks and the Iranians, it is certainly true. Japan is known in Turkey for having aided ship-wrecked Turks during the Meiji period, and was highly regarded for having defeated Turkey's ancestral enemy Russia during the

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<sup>46</sup> On the history and current operations of Inpex, see its corporate website, at: <http://www.inpex.co.jp/english/company/history.html>.

<sup>47</sup> See the Ministry of Foreign Affairs website, at: <http://www.mofa.go.jp>.

Russo-Japanese War of 1905. For half a century and more—especially since the 1979 revolution-- Japan has been highly regarded in Teheran for its tacit support of Mosaddegh following his nationalization of the British-owned Anglo-Persian Oil Company in 1951. Yet Tokyo has also gained credit on the Arab side of the Gulf for its generous aid to the Palestinians over the years, and even more especially for its strong financial backing of the Gulf Cooperation Council—apart from, and in addition to the United States-- during the Gulf War of 1991.

### **America's Traditional Role, and How it is Changing**

Since the end of World War II the United States has been, in Michael Palmer's apt phrase, the political-military "guardian of the Gulf".<sup>48</sup> Between 1946 and 1948, it constrained Russia from occupying northern Iran, and under the Truman Doctrine it extended economic aid to Turkey and Greece, after the Sterling Crisis of 1947 prevented Britain from filling its traditional role as lender of last resort. Through covert action, Washington destabilized and ultimately overthrew the nationalistic Mosaddegh government in Iran in 1953<sup>49</sup>; after the Iranian Revolution of 1979 it once again worked to re-assure the Arab nations of the Gulf, with creation of a Rapid Deployment Force (1979); reflagging of vessels exporting oil from

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<sup>48</sup> See Michael A. Palmer. Guardian of the Gulf: A History of America's Expanding Role in the Persian Gulf, 1833-1992. New York: The Free Press, 1992.

<sup>49</sup> On the coup that overthrew Mosaddegh, see Stephen Kinzer. All the Shah's Men: An American Coup and the Roots of Middle East Terror. New York: John Wiley and Sons, Inc., 2003.

Arab Gulf ports amidst the Iran-Iraq War (1986-1987); and rolling back Saddam Hussein's aggression against Kuwait in 1991. In 2003, of course, the United States, supported by a "coalition of the willing", invaded Iraq, and overthrew Saddam's regime entirely.

### **The Logic of Arab Receptivity to the US and Japan**

Arab receptivity to US policies has naturally been influenced by the heritage of those policies themselves. The US has, since the Iran Revolution, frequently intervened in the Gulf to support the Gulf Arab states. It has also sold them massive quantities of high-performance weapons, particularly fighter aircraft, and greatly expanded its basing presence in the region. Despite its 2011 withdrawal from Iraq, the US military retains formal bases in Kuwait (Army—Camp Doha); Qatar (Air Force—al-Udeid Air Force Base); and Bahrain (Navy). In 2014-15 it has also re-engaged militarily with the Islamic State, in both Iraq and Syria.

Despite the strong defense support for friendly governments in the Gulf that the US has provided, and the quiet backing that it receives from local leaders, American security involvement in the region has continued to be controversial with the Arab public--due in part to America's close ties with Israel, and with Britain—a former imperial power. US presence is also regarded suspiciously, however, because American involvement in the

region has traditionally been so heavily military. The cultural and economic dimensions of US relations with the Gulf nations have long been under-developed.

Two contradictory sets of pressures have thus been consistently bearing on Arab leaders over the quarter century during which the US has maintained a substantial military presence in the Gulf: (1) pressures from the US itself for cooperation, especially in anti-terrorist operations; and (2) resistance from the Arab “street” to such cooperation. They have, not surprisingly, sought means of easing the contradictions. US-Japan cooperation with key Arab nations can, we shall argue, help to ease these contradictions. In doing so, it can both facilitate a more active Japanese role in the Gulf, serving long-term Japanese interests, and also help the United States to develop a softer, lower profile, that simultaneously enhances American influence in the region.

### **In Conclusion:**

#### **The Logic of Trilateral US-Japan-Gulf Arabian Cooperation**

The three prospective parties to this triangle can all benefit greatly, but only under certain conditions. To understand those, it is important to summarize once again the areas where the relations of the three parties are symbiotic:

- 1) American military power is critical to the Arab states of the Gulf, as a deterrent to Iran and as a potential combatant against radical non-state actors such as the Islamic State. US diplomatic influence is also useful to the Arab Gulf states as a restraint on Israeli adventurism in the region.
- 2) American military presence—both in the Gulf and along the energy sea lanes to Asia--is likewise important to Japan, as a guarantor that vital energy supplies will flow smoothly.
- 3) The Arab Gulf nations, especially Qatar and the UAE, also need stable economic relations with Japan, which is a prime market (larger even than China) for the LNG and oil that they produce.
- 4) Japan can likewise be a useful partner to the Arab nations—both within the Gulf and more broadly-- in a broad range of technical areas related to soft security, including desalinization, energy efficiency, urban planning, and transportation. In many of these spheres, as well as food production, the combination of the US and Japan together can be a highly appropriate configuration.
- 5) The joint involvement of Japan and the US in socio-economic and disaster-preparedness projects with security relevance can help neutralize the backlash against American involvement that is a perennial domestic political problem for Arab nations.

US-Japan cooperation in the Arabian Gulf and the Arc of Crisis surrounding it, in short, has an importance that transcends the sum of its parts, in both substantive and symbolic terms. Established American political-military power and presence both gives enhanced credibility to Japanese efforts and also helps expand Japan's still developing human network. Japanese political-economic involvement in the Gulf, conversely, helps soften Arab resentment of what has been seen as an over-bearing, even neo-imperialist US presence, while simultaneously broadening and deepening American development expertise in such areas as energy efficiency and holistic program design.

## **CHAPTER FIVE: EMERGING REALITIES**

The US-Japan-Arab Gulf trilateral relationship has an important intrinsic logic, as we have seen. The Gulf has massive hydrocarbon reserves, which makes it intrinsically important for Japan, a nation with few such reserves. The Gulf is also an unstable region where tectonic geopolitical plates meet around the fragile periphery of Israel, which makes it intrinsically important to a global superpower like the United States. The US and Japan have complementary economic and political-military capabilities, as well as common interests, that make them indispensable partners for one another in a troubled world.

These underlying verities are clear, but they need to be applied in a fluid, rapidly changing world. The Arabian Gulf portion of that world exhibits five critical dimensions of change—five challenges-- to which the US and Japan need to jointly respond. This chapter outlines those emerging challenges, and the next one specifies the opportunities for US-Japan cooperation that will likely emerge from confronting these challenges seriously. One of the challenges (demography) is socio-economic; two (evolution of the GCC and relations with Iran) are political; and two (energy and the China factor) are in their essence geopolitical.

## **A. DEMOGRAPHY**

The Arab world generally, including the nations of the Gulf, has one of the youngest and most rapidly growing populations on earth. In 2010, the population of the Arab region was 357 million, having doubled since 1980. While the global population was growing at 1.5 percent annually, the Arab world was growing at 2.4 percent. Population was increasing fastest (among independent nations) in Yemen, at 3.7 percent, which was also the poorest and one of the most unstable countries of the region.<sup>50</sup> Only in sub-Saharan Africa was population expanding more rapidly than in the Arab world.<sup>51</sup>

The Arab demographic challenge is not simply a matter of growing population. More importantly, from a political-economic standpoint, it is a matter of employment. The recent surge in Arab population came primarily in the 1980s and the 1990s, following the oil-price increases of the 1970s, as income levels rose and health standards began to improve. Consequently, the Arab world today has a rapidly rising cohort of young people, who also constitute a rising share of local populations. Around 22 percent of Yemen's people are between 19 and 28 years old—up from 18 percent in 1980. In

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<sup>50</sup> On the Arab demographic challenge, see Barry Mirkin. Arab Spring: Demographics in a region in transition. New York: United Nations Development Program, Arab Human Development Report Research Paper Series, 2013.

<sup>51</sup> Keith Crane, Steven Simon, and Jeffrey Martini. Future Challenges for the Arab World: The Implications of Demographic and Economic Trends. Santa Monica, California: The Rand Corporation, 2011, p. ix.

the Palestinian territories that share is 21 percent, and in Iraq and Syria 20 percent, compared to a global average of 18 percent.<sup>52</sup>

With rising affluence, the population boom has begun to crest in many Arab nations. For the Middle East/North Africa region as a whole, the share of the youth population (15-24 years of age) is expected to decline from 20 percent in 2010 to 15 percent by 2025.<sup>53</sup> In some areas, however—mostly poor and unstable—the flood of young people is expected to continue to grow. In Gaza, for example, fully 50 percent of the population is under the age of 15; in Yemen the ratio is 47 percent, while on the West Bank it is 45 percent, 43 percent in Iraq, and 42 percent in Syria.<sup>54</sup>

Population has been growing fastest in the Arab world around the periphery of the wealthy Arabian Gulf, rather than within it—in countries like Yemen, Oman, Iraq, Syria, and the Palestinian State. These vulnerable and volatile areas, which amount to a veritable “Arc of Crisis”, ring strategically important Saudi Arabia, as indicated in Figure 5-1.

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<sup>52</sup> Mirkin. *Arab Spring*, p. 14.

<sup>53</sup> *Ibid.*

<sup>54</sup> Jane Diamond, “The Demography of the Arab World”, at: [www.naba.org.uk](http://www.naba.org.uk). Interestingly, demographic pressures also appear strong in Oman, one of the traditionally more stable nations of the region, where the share of population under 15 is 46 percent, and the estimated doubling time of population is only 18 years, as compared to 423 years in Britain.

**Figure 5-1: THE “ARC OF CRISIS” AROUND THE ARABIAN PENINSULA**



Source: Middle East Map, <http://www.geographicguide.com/asia/maps/middleeast.htm>

Most of the Arc of Crisis nations are relatively oil poor, with unstable, transitional economies and political systems. Given their rapidly rising youth population, it is not surprising that they also have extremely high rates of youth unemployment. As noted in Table 5-1, prevailing rates for youth unemployment in the Arab world are generally well over double those for total unemployment. They are significantly higher in war-torn countries, and those without oil, than elsewhere, although some major oil producing countries, such as Saudi Arabia and the UAE, appear to experience severe youth employment challenges as well. The one Arab

country that seems to have resolved its youth employment problem is Qatar.

**Table 5-1:**

**ARAB YOUTH UNEMPLOYMENT RATES IN COMPARATIVE PERSPECTIVE**

<b>COUNTRY</b>	<b>TOTAL UNEMPLOYMENT</b>	<b>YOUTH UNEMPLOYMENT</b>
Iraq	15.3	43.5
Palestinian Auth.	23.7	40.2
Yemen	14.6	NA
Jordan	12.5	28.1
Saudi Arabia	5.4	29.9
UAE	4.0	12.1
Bahrain	3.7	NA
Qatar	0.3	1.2

*Notes:* (1) NA indicates “not available”. (2) “Youth Unemployment” covers those seeking work between 15 and 24. (3) Statistics are the latest available, and provided for the following years: Iraq (2008); Palestinian Authority (2008); Yemen (2009); Jordan (2010); Saudi Arabia (2009); UAE (2008); Bahrain (2010); and Qatar (2009).

*Source:* International Labor Organization, “Statistical Update on Arab States and Territories and North African Countries,” June 2011, cited in Barry Mirkin, *Arab Spring*, p. 23.

**B. INSIDE THE GCC: CONTINUING CHALLENGES OF COHESION**

All of the Arab states bordering the Gulf except Iraq are members of the Gulf Cooperation Council (GCC), known formally as the Cooperation Council for the Arab States of the Gulf. The GCC was founded in May, 1981 at Riyadh, Saudi Arabia, with Kuwait, the United Arab Emirates, Qatar, Bahrain, Oman, and Saudi Arabia as members. All of these nations are Arab monarchies, and the immediate objective of establishment was collective

protection against threats posed by the Iran-Iraq War and Iranian-inspired activist fundamentalism. As indicated in Table 5-2, the countries do, however, vary substantially in size, population, and income level— asymmetries that have challenged the Council’s unity ever since its foundation, while also facilitating common action in time of crisis.

**Table 5-2: ASYMMETRIES WITHIN THE GCC**

<b>COUNTRY</b>	<b>POPULATION</b>	<b>2014 GDP (US \$)</b>	<b>2014 GDP/PER CAPITA (US \$)</b>	<b>AREA (sq. miles)</b>	<b>MILITARY</b>
Saudi Arabia	27,345,986	\$778 billion	\$25,401	830,000	Active 227,000
UAE	5,628,805	\$416 billion	\$44,771	32,278	Active 63,000
Oman	3,219,775	\$80.5 billion	\$21,688	119,499	Active 42,600 Paramilitary 4,400
Kuwait	2,742,711	\$179 billion	\$44,850	6,880	Active 15,500 Paramilitary 7,100
Qatar	2,123,160	\$ 212 billion	\$94,744	4,468	Active 11,800
Bahrain	1,314,089	\$12.8 billion	\$28,424	295	Active 8,200 Paramilitary 11,260

*Source:* International Institute of Strategic Studies, The Military Balance 2015

In an intensive series of meetings soon after foundation, the GCC defense ministers and chiefs of staff developed plans for mutual defense, directed principally against Iran, and launched efforts to form a joint command and a joint defense network.<sup>55</sup> As an initial concrete gesture of unity, ground and air units of the six member states conducted several multilateral military exercises between 1983 and 1987, under the code name of Peninsula Shield. Saudi Arabia and Kuwait gave military assistance to Bahrain, which was particularly exposed due to its majority Shiite population, to acquire advanced fighter aircraft and to build a modern air base. They also aided Oman in improving its ability to defend the Strait of Hormuz. The Saudis likewise served as catalyst, at the GCC Kuwait summit of 1987, for creating a combined air control and warning system based on Saudi AWACS aircraft, although this was delayed by technical problems. In 2004, the GCC member states also concluded a counter-terrorism accord focusing on intelligence sharing and the use of mass media, as well as religious platforms, to tackle terrorism.<sup>56</sup>

In 1984 the GCC defense ministers agreed to create a 10,000 man Peninsula Shield Force, to be based in Saudi Arabia with elements from all the member states. Numbering only 5000 when Saddam Hussein invaded

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<sup>55</sup> See "Gulf Cooperation Council" on the Global Security website, at: <http://www.globalsecurity.org/military/world/gulf/gcc.htm>.

<sup>56</sup> See UK Parliament Select Committee on Foreign Affairs, "The United Arab Emirates and the 'war against terrorism', at: <http://www.publications.parliament.uk>.

Kuwait in August, 1990, the Shield Force did not participate in the conflict as a distinct entity. Lack of operational readiness and demographic depth, as well as political differences among ruling families of the Gulf, made its mobilization impractical.<sup>57</sup>

In subsequent years, Saudi Arabia maintained the headquarters and provided the bulk of the troops—continuing to favor the concept of a regional force, even as most GCC partners feared the implied prospect of Saudi hegemony.<sup>58</sup> Saudi and Emirati troops within the force were, however, mobilized in March, 2011 to put down protests in Bahrain during the Arab Spring. One thousand Saudi and 500 Emirati soldiers participated.<sup>59</sup> In September, 2014 GCC members Saudi Arabia, Bahrain, UAE, and Qatar, plus pending member Jordan, commenced air operations against ISIS in Syria, in cooperation with the United States, although that action was under the aegis of GCC-US Strategic Cooperation Forum, rather than the Peninsula Shield Force.<sup>60</sup>

The GCC has also been ambitious in the economic and financial area. The prospective global implications of its initiatives in these sectors are

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<sup>57</sup> See Al-Monitor.com website, at: <http://www.al-monitor.com/pulse/politics/2013/01/saudi-arabia-gcc-announcement.html##ixzz3TGW4abn9>.

<sup>58</sup> Christian Koch, "he GCC as a Regional Security Organization", *KAS International Report*, November, 2010, at: <http://www.kas.de>.

<sup>59</sup> Ethan Bronner and Michele Slackman, "Saudi Troops Enter Bahrain to Help Put Down Unrest", *New York Times*, March 14, 2011.

<sup>60</sup> Joint Communique Following the Fourth Ministerial Meeting of the GCC-US Strategic Cooperation Forum, September 25, 2014. See Media Note, Office of the Spokesperson, New York City, at: <http://www.state.gov>.

great, especially in finance, since the six GCC member states have a combined GDP of over \$1 trillion, and roughly ten percent of global foreign-exchange reserves. Were they to successfully create a common multilateral currency union, it would be the second largest in the world—next in scale only to the European Union’s Euro currency area.<sup>61</sup> Given the foreign-exchange reserves standing behind it, and a seeming absence of weak links such as Greece presents for the Euro, the GCC thus potentially provides, through its putative currency, the Khaleej, one plausible alternative key currency to the US dollar.

The GCC’s success in its economic initiatives has so far been mixed. It did create a customs union in 2003, and a common market in 2008, with plans to realize a fully integrated European Union-style monetary union by 2010. Implementation lagged behind after the 2009 financial crisis, but aspirations for integration persisted, especially in Saudi Arabia, Kuwait, Bahrain, and Qatar.<sup>62</sup> In 2015 trade integration was expanded to the service sector, with GCC citizens being allowed full equality to work in the government and private sectors of all member state; to own and deal in shares, set up companies, and open branches in the member states; while

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<sup>61</sup> Michael Sturm and Nikolaus Siegfried. Regional Monetary Integration in the Member States of the Gulf Cooperation Council. Frankfurt am Main: The European Central Bank, June, 2005, at: <http://www.ecb.int>.

<sup>62</sup> The four countries resolved in 2013 to create a common central bank that would issue a common currency. See “Gulf countries take steps to achieve monetary unity”, December 29, 2013, at: <http://www.al-monitor.com>.

also receiving local social insurance and retirement coverage and being eligible for real estate ownership and access to education and various social services.<sup>63</sup> Coordination of taxation systems, accounting standards, and civil legislation, however, is still incomplete.

The Gulf Cooperation Council has been relatively successful with infrastructure projects that help to bind its partner economies. The member states have, for example, cooperated to connect their electric power grids. A water connection project has also been launched, that will be partially in operation by 2020.<sup>64</sup> Most importantly, the GCC has launched major rail lines to more fully integrate the Arabian peninsula, thus both promoting intra-regional trade and reducing fuel consumption. Over 40,000 kilometers of rail network are being constructed across the GCC, at a cost of up to \$200 billion, to be completed by 2018.<sup>65</sup>

Financial integration has proven to be among the thorniest challenges to confront the GCC. The six member nations agreed in principle to launch a single regional currency, similar to the Euro, but as the implementation date approached two nations began to equivocate. In December, 2006 Oman announced that it would not be able to meet the

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<sup>63</sup> "GCC common market achieves most goals", *The Peninsula*, January 9, 2015, at: <http://thepeninsulaqatar.com>; and The Atlantic Sentinel.com, June, 2010, at: <http://atlanticsentinel.com/2010/06/the-real-threat-in-the-persian-gulf/>

<sup>64</sup> "The GCC and the Supreme Council Summits", Saudi-US Relations Information Service, December 11, 2014, at: <http://wwsusris.com>.

<sup>65</sup> "GCC Rail Projects to See Investments Worth \$200 billion", *Gulf Business*, January 11, 2015, at: <http://gulfbusiness.com>.

target date of late 2009. Following the announcement that the central bank for the monetary union would be located in Riyadh, the UAE also announced its withdrawal, in May, 2009. In December, 2009, however, Bahrain, Kuwait, Qatar, and Saudi Arabia did, however, create a joint Monetary Council, preparatory to introducing a common currency, and to establishing a central bank. In late 2013 they reaffirmed their intention to establish a central bank that would issue a common currency, although delays were in prospect.<sup>66</sup> A currency basket is already used for financial transactions, to some degree.

Ultimately, the most serious obstacles to full-fledged economic union within the GCC seem to be diplomatic, albeit rooted in political differences. Saudi Arabia is by far the largest nation in area, population, and foreign exchange reserves, as indicated in Table 5-2. Yet the UAE resents what it perceives as Saudi hegemonic impulses within the GCC, as expressed in Saudi insistence on both commanding the Peninsula Shield Force and providing the headquarters for the proposed central bank, as well as the persistent Saudi proposals for confederation and “Gulf Union”.<sup>67</sup> The oil producers (Saudi Arabia, the UAE, and Kuwait, in particular) also have

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<sup>66</sup> “Gulf countries take steps to achieve monetary unity”, December 29, 2013, at: <http://www.al-monitor.com>; “GCC tries to persuade UAE, Oman to join currency talks”, *Arab News*, June 29, 2014, at: <http://www.arabnews.com>; and the Asian Development Bank Institute website, at: <http://www.adbi.org>.

<sup>67</sup> In December, 2011 Saudi Arabia proposed that the GCC form a confederation, and in December, 2013 it floated proposals for a “Gulf Union”. See “Gulf Union on agenda at annual GCC summit”, *Al Arabiya News*, December 10, 2013, at: <http://english.alarabiya.net>.

natural differences of economic interest with the chief natural gas producer (Qatar) of the region.

Meanwhile, Saudi Arabia, the UAE, and Bahrain have persistently resented Qatar's support since 2011 for Islamist groups active during the Arab Spring, including the Muslim Brotherhood and the former Morsi government of Egypt. These differences came to a head at the March, 2014 meeting of the GCC, after which the UAE, Saudi Arabia, and Bahrain all recalled their ambassadors to Qatar.<sup>68</sup> After a few months, following Qatari concessions, these countries resumed active relations with Qatar, but tensions still remain.

### **C. THE CHANGING ENERGY EQUATION**

For more than half a century—during much of the period from the Russian Revolution of 1917 until the early 1970s, the Texas Railroad Commission, drawing on the seemingly inexhaustible resources of the East Texas Field, was an influential single arbiter of world energy prices, through its influence on production levels in the United States and by American majors around the world.<sup>69</sup> Following the Oil Shocks of the 1970s, and the nationalization of Aramco and other Western energy assets in the Middle East, the locus of geo-economic power in hydrocarbons shifted to

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<sup>68</sup> "Three Gulf Countries Pull Ambassadors from Qatar Over its Support of Islamists", New York Times, March 5, 2014.

<sup>69</sup> Daniel Yergin. The Prize, pp. 231-235. This was particularly true during the Depression of the 1930s, when production in East Texas supplied fully half of American demand.

the Arabian Gulf. Saudi Arabia became the critical swing producer in oil, whose production decisions exercised a decisive impact on global oil prices. Although long-term contracts and the absence of well-developed spot markets limit the analogy, Qatar also came to play a powerful price-leading role in liquefied natural gas.

The Arabian Gulf continues, of course, to hold a dominant reserve position in conventional oil and gas that make it the long-term supplier of last resort in global energy markets. As we saw in Chapter One, the Gulf holds well over one third of the world's proven conventional oil reserves, with the largest share concentrated in three countries—Saudi Arabia, Iran, and Iraq.<sup>70</sup> It also holds close to 30 percent of the world's conventional natural gas—again concentrated heavily in three countries—Qatar, Iran, and Saudi Arabia. The only formidably large conventional oil and gas reserves on earth lie in the former Soviet Union.

Over the past decade, however, potentially destabilizing challenges to the Middle East-centric global energy regime that has prevailed since the 1970s have suddenly begun to arise. The emerging challenge is centered in the United States, and flows from the rapid recent increase in American shale gas and shale oil (tight oil) production. Shale gas production in the US rose from less than 1 percent of domestic gas production in 2000 to over

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<sup>70</sup> BP, [Statistical Review of World Energy](#), June, 2014 edition.

20 percent by 2010, with the US Energy Information Administration estimating that it will rise further, to 53 percent of US gas supply by 2040.<sup>71</sup> The US Potential Gas Committee has increased its estimates of unproven US gas reserves by 45 percent, from 32.7 trillion cubic meters (tcm) to 47.4 tcm, to allow for these shale gas developments.<sup>72</sup>

American shale oil, produced through an analogous process of horizontal drilling and fracking to that which produces shale gas, and spurred by parallel technological developments, has also begun to flood into the market, beginning shortly after the large-scale appearance of shale gas. In 2004 shale oil production in the US only amounted to 260,000 barrels per day. That amount has increased over thirteen-fold, however, to 3,480,000 barrels per day in 2013<sup>73</sup>, and even more in subsequent years. As a result, US oil imports have fallen to their lowest levels in a quarter century.

Shale oil production in the US appears likely to rise more slowly in the future, to around 1.2 million bbl/day by 2035, representing 12 percent of projected US oil production at that time.<sup>74</sup> Most estimates of future production, however, are significantly higher, and American shale oil

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<sup>71</sup> US Energy Information Administration, "M-3 Annual Energy Outlook, with Projections to 2040", April, 2014, at: <http://www.eia.gov>.

<sup>72</sup> Paul Stevens, *The 'Shale Gas Revolution': Developments and Changes*. London: Chatham House Briefing Paper, August, 2012, p. 1, at: <http://www.chathamhouse.org>.

<sup>73</sup> PWC Corporation. *Shale Oil: The Next Energy Revolution*. at: <http://www.pwc.com>.

<sup>74</sup> Energy Information Agency. *Annual Energy Outlook*, 2012 edition. Energy-price volatility could be one inhibiting factor.

reserves appear to be huge. They have been revised upward more than eight-fold, from 4 billion barrels in 2007 to 33 billion barrels in 2010, as a result of new assumptions regarding technology, suggesting a significant new contribution to US energy independence.<sup>75</sup> In the long term, it now appears that shale oil could well displace around 35-40 percent of waterborne crude oil imports into the US, a significant fraction of which come from the Middle East.

The US has not, it is important to stress, become as yet a significant exporter of either oil or natural gas, and there are multiple reasons to doubt that it will be so in future. The first, and arguably most important, reason is the nature of shale-oil and shale-gas production, which comes from small wells with a short production life, and thus responds primarily to marginal rather than total production costs.<sup>76</sup> When prices go down, shale producers flexibly stop drilling, and production falls within a matter of months, as the small wells, producing as little as 2000 barrels a day, are played out. Thus, unless export prices are predictably high, and marketing networks are well-established, shale producers will not have incentives to produce for export, and their output will vary flexibly in accordance mainly with domestic demand.

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<sup>75</sup> Ibid.

<sup>76</sup> Shawn Tully, "The shale oil revolution is in danger", [Fortune.com](http://fortune.com), January 9, 2015, at: <http://fortune.com/2015/01/09/oil-prices-shale-fracking/>

A second, related factor inhibiting US shale energy exports is the behavior of Middle Eastern low-cost conventional energy producers—so graphically demonstrated in recent months. Saudi Arabia, in particular, with one quarter of world conventional oil reserves, has strong incentives to curb the global market share of US shale producers. And it can easily do so by increasing its own production and thereby depressing international market prices, as it has so dramatically and effectively done since the fall of 2014.<sup>77</sup>

A final constraint on US shale production, and on exports—as well as on other unconventional energy production, such as Canadian tar-sands development-- is environmental considerations, and their relationship to local politics. Environmentalist opposition has, for example, blocked the Keystone pipeline project, as well as the expansion of fracking in Northeastern states in the US, such as New York and Pennsylvania. As the Keystone controversy well illustrates, local residents are sensitive to environmental challenges in general, and often even more sensitive when the resources being produced and transported are meant for export rather than local consumption.

The global impact of US shale production thus appears to be important but limited. It will put downward pressure on global oil and gas

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<sup>77</sup> Stanley Reed, “Oil Prices Continue Decline, Pressured by Saudi Action to Defend market Share”, New York Times, October 2, 2014; and Thomas Friedman, “A Pump War?”, New York Times, October 14, 2014.

prices, by redirecting overseas production that would otherwise flow to the US as imports back into the global market. It will not, however, result in large energy flows outward from the United States to other parts of the world. Non-North American markets will continue to be dominated by Arabian Gulf production, which is low-cost, with the major casualties of expanded US production being Russian green-field production, especially in natural gas, which is high-cost due to the large infrastructural requirements.

The dramatic recent market developments of recent years, however, suggest that Arabian Gulf producers will need to keep alert to emerging market challenges. They cannot maintain their market position through passivity, given the latent American shale energy challenge, which can emerge quite abruptly, due to the short production cycle of the US shale producers. The challenge to be alert to market developments may be especially sharp for LNG producers such as Qatar, since shale-induced liquidity in global markets, combined with new conventional production coming on-stream in Australia and elsewhere, are likely to put pressure on the existing long-term contract structure, and enhance the importance of spot and futures markets. This rising long-term fluidity in global LNG markets has major implications for Japan and Korea, which are the two

largest LNG importers in the world, consuming over half of world LNG imports between them.<sup>78</sup>

#### **D. IRAN, THE GCC, AND THE STABILITY OF THE GULF**

Iran looms large over the Gulf today, as it has throughout history. It is by a considerable margin the largest country of the region geographically, and in terms of population. It was an empire and a highly developed civilization 2500 years ago—nearly a millennium before the Arab conquests.

The nations of the Arab Gulf, by contrast, are smaller, and much more recent in their provenance. The oldest, the Wahhabi kingdom of Saudi Arabia, dates only from the 18<sup>th</sup> Century, and in its current incarnation only from the early 20<sup>th</sup> century reign of Abdul Aziz, from whom its rulers are descended. Although some of the other traditional monarchical lines, such as the Sultanate of Oman, are venerable, all of them are of recent vintage as independent nation states, emerging from British protection only in the 1960s and 1970s.

As recently as the mid-1970s, the Shah of Iran ruled imperiously, as the hegemon of the Gulf--with the support of the Nixon Administration, including Henry Kissinger, in the United States. It is only since the Iranian

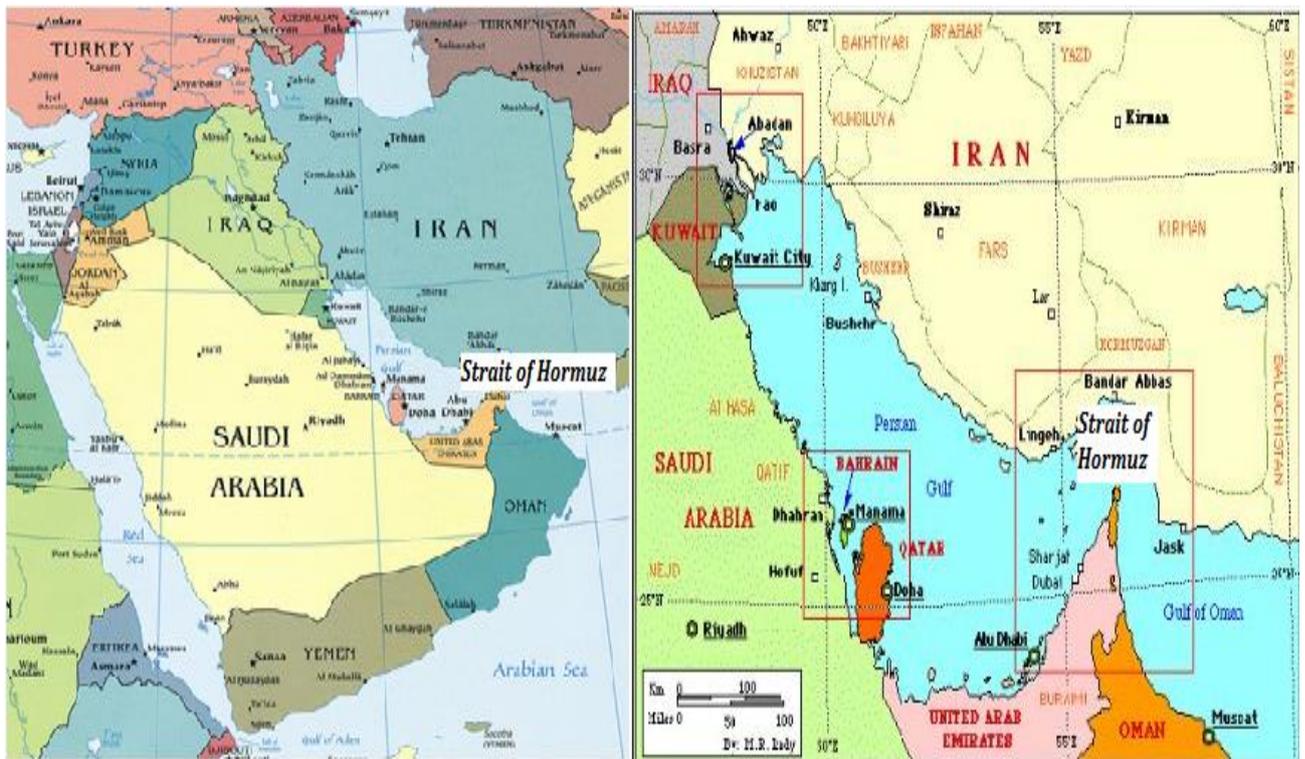
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<sup>78</sup> In 2013 Japan accounted for around 37 percent of global LNG purchases, and Korea accounted for 17 percent. Data from US Energy Information Administration, at: <http://www.eia.gov>.

Revolution of 1979, and the ensuing Iran-Iraq War, that the United States has aligned decisively with the Arab side of the Gulf. In this position, it must contend with some embedded ethnic and historical realities, inherited from pre-Revolutionary years, which continue to complicate US and Japanese efforts in support of the GCC nations.

The most deeply embedded reality, of course, is geography. As Figure 5-1 indicates, Iran dominates the northern shore of the Gulf, as well as strategic entrances to the Strait of Hormuz, through which one third of the crude oil moving in international commerce must pass. It would be relatively easy for the Iranians to blockade or mine entrances to the Strait, such that shipping would be disrupted. Alternatively, Iran could, in a crisis, covertly harass international shipping, as it did during the latter stages of the Iran-Iraq war, sending international shipping insurance rates into the stratosphere, and compelling the Reagan Administration to engage in a reflagging operation. Any of these scenarios would have catastrophic implications not only for the Gulf states, but for Northeast Asia—including conspicuously Japan, the largest oil importer from the Gulf, as well.

**Figure 5-2: IRAN AND THE GULF, INCLUDING THE STRAIT OF HORMUZ**



Source: Middle East Map  
<http://www.geographicguide.com/asia/maps/middleeast.htm>

Source: Global Research Centre for Research on Globalization  
<http://www.globalresearch.ca/>

A second embedded reality of the GCC relationship with Iran is ethnic: Iran’s population is overwhelmingly Shiite<sup>79</sup>, and several of the Arab Gulf nations—notably Iraq, Bahrain, and Saudi Arabia—have substantial Shiite populations as well.<sup>80</sup> Iraq and Bahrain both have Shiite majorities, even though Iraq until the US intervention of 2003 had been ruled by Sunnis, and Bahrain continues to be ruled by Sunnis to this day. Shiites also constitute around one third of the population in the oil-rich Eastern

<sup>79</sup> Iran’s population is estimated to be 90-95 percent Shiite. See CIA. World Factbook.

<sup>80</sup> Iraq is around 65-70 percent Shiite; Bahrain is 65-75 percent Shiite; and Saudi is 10-15 percent Shiite. See Ibid.

province of Saudi Arabia,<sup>81</sup> and constitute strategic minorities in Yemen, Lebanon, and Afghanistan as well.

There is also embedded history. During the 1970s, the Shah of Iran pursued an aggressive policy toward the fledgling, newly independent Gulf Arab states, declaring himself the “policeman” of the region, and enforcing his sway with a massive arms buildup. During those years, Iran occupied three islands that had previously belonged to the United Arab Emirates, and claimed Bahrain as well. After the revolution Iran enflamed sectarianism in the region by supporting Shia minorities in the Gulf against their governments, which naturally affects the stance of those governments toward the Islamic Republic to this day.

On top of all these considerations, Iran now also appears to pursue nuclear weapons, which India, Pakistan, and Israel, in its neighborhood, already have. The Gulf Arab states came to a clear perception of Iranian intent relatively late—only in 2002, when the advanced state of Iran’s nuclear program was discovered. All of the Gulf states are signatories to international treaties against nuclear proliferation and weapons of mass destruction; they now see Iran as an aggressive and expansionist state that,

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<sup>81</sup> Library of Congress Country Study on Saudi Arabia, at: <http://www.au.af.mil/au/awg/awcgate/loc/sa/shia.htm>.

with nuclear capabilities, would represent a clear and present danger to the other Gulf states.<sup>82</sup>

### **E. THE CHINA FACTOR**

China's classical relationship with the Middle East goes back to the days of the Silk Road, with significant interaction having occurred between the Islamic world and China even in the days of the Tang dynasty. In contrast to Japan, which has had a significant symbolic and economic presence in the Middle East since the Russo-Japanese War at the beginning of the twentieth century, however, China's modern relationship with the Middle East, and the Arab Gulf in particular, is relatively recent. That said, it has grown remarkably over the past decade, presenting a new and growing challenge to more established US and Japanese partnerships with Gulf nations.

Modern China's relations with the Gulf were relatively detached until China became a net oil importer during the third quarter of 1993, as both nations maintained primarily regional concerns. China's relations with Egypt were relatively close from the days of Nasser and Chou En Lai's joint participation in the 1955 Bandung conference of non-aligned nations; one clear indication of China's regard for Egypt was to leave Ambassador to Egypt Huang Hua, later to become Foreign Minister, in Cairo during the

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<sup>82</sup> On Iran and the Gulf, see "Iran, Iraq, and the Gulf Region: Iran working group Roundtable/video conference, February 27, 2007, at: [http://www.fiiia.fi/en/event/98/iran\\_iraq\\_and\\_the\\_gulf\\_region/](http://www.fiiia.fi/en/event/98/iran_iraq_and_the_gulf_region/)

Cultural Revolution of the 1960s—one of the only Chinese senior diplomats worldwide to remain at his post, without returning to Beijing. China had strong ties with Tanzania, the African National Congress of South Africa, the PLO, and various other Afro-Asian revolutionary groups, but little relationship with the Gulf. When it finally did discover the Gulf, during the mid-1970s, its principal early relations in the Gulf were with the Shah of Iran.<sup>83</sup> China did not even recognize Saudi Arabia until 1990, and maintained diplomatic relations with Taiwan from 1946 until then.

Since the 1979 Iranian revolution, China's ties with the Gulf have deepened substantially. The initial catalyst was the Iran-Iraq War (1980-1988), during which China was the principal arms supplier to revolutionary Iran. Following the war, China also provided arms supplies to Saddam Hussein's Iraq, and even missiles to Saudi Arabia. China's role as a weapons supplier has, however, waned substantially since the mid-1990s, under strong pressure from the United States.<sup>84</sup>

China's economic relationship to the Gulf has intensified greatly since the PRC became a net oil importer in 1993. Today it imports well over two million barrels a day from the Gulf, or about 40 percent of China's total imports. This ratio is markedly lower than the share of Japanese or Korean

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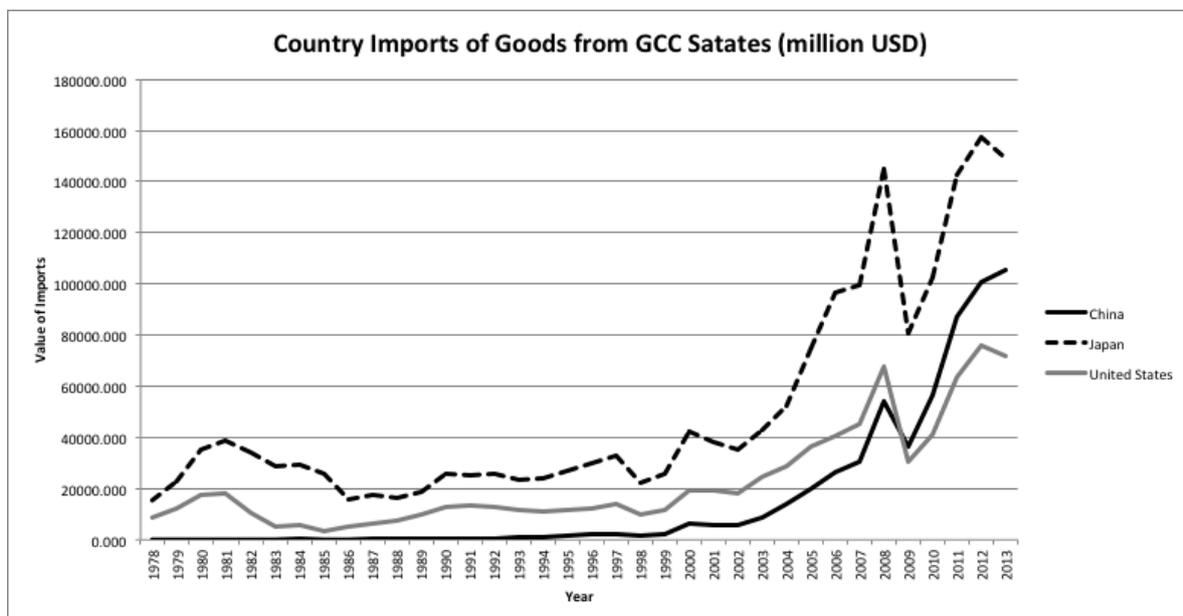
<sup>83</sup> See John Garver, *China and Iran: Ancient Parts in a Post-Imperial World*. Seattle: University of Washington Press, 2006, p. 179.

<sup>84</sup> Stockholm International Peace Research Institute (SIPRI) Database; and IMF, *Direction of Trade Statistics*.

imports from the Gulf, as we have seen, and more oriented to the northern shores of the Gulf (Iran and Iraq) than are Japan's imports, suggesting some geopolitical hedging on China's part. At the end of 2013, Japan's overall imports from the GCC states, including but transcending oil, as indicated in Figure 5-3, were substantially larger than those of China, although the latter were larger than those of the US, which does not import much Gulf oil.

**Figure 5-3:**

**CHINA'S IMPORTS FROM THE GULF: A COMPARATIVE PERSPECTIVE**



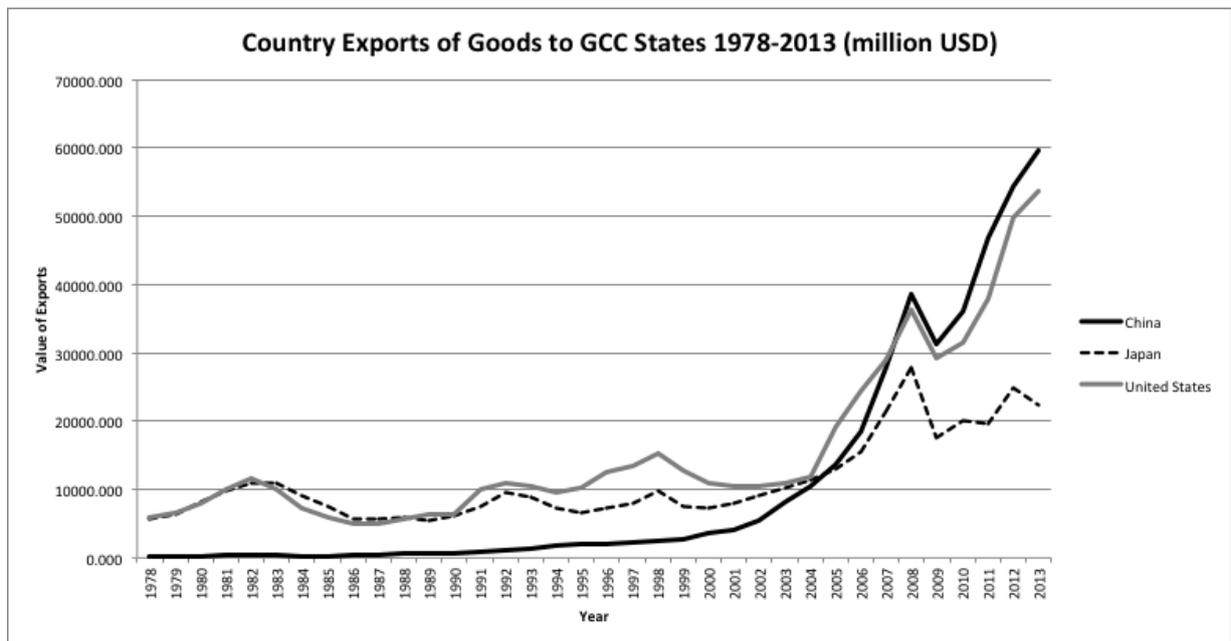
Source: IMF Direction of Trade Statistics

The real core of China's economic relationship with the Gulf, however, still lies in China's prowess in manufactures. As indicated in Figure 5-4, China is by a considerable margin the largest supplier of goods to the Arab Gulf, with the scale of those imports having more than doubled since 2009. American exports to the GCC nations have also increased rapidly, although

not, of course, to Iran. Japan's exports to the Gulf, by contrast, still remain below the levels of 2008.

**Figure 5-4:**

**CHINA'S EXPORTS TO THE GULF: A COMPARATIVE PERSPECTIVE**

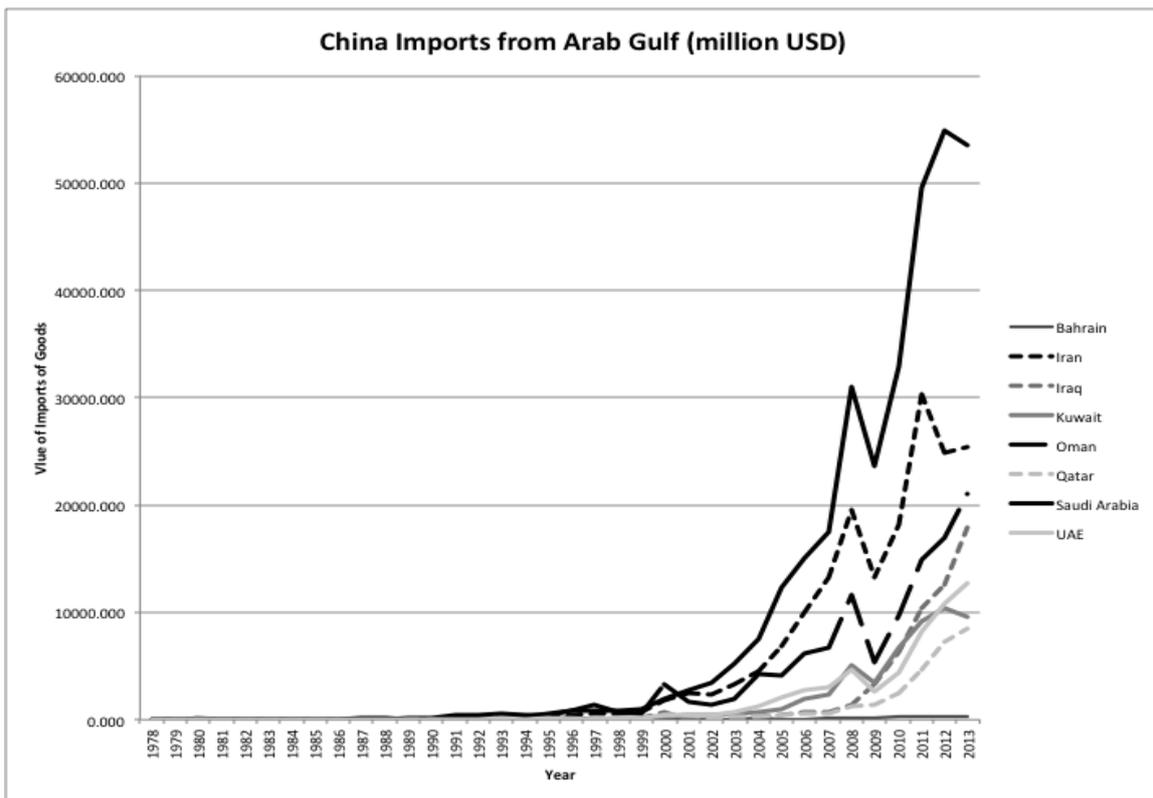


Source: IMF Direction of Trade Statistics

It is striking to see the country-specific breakdown of China's trade with the Arab Gulf nations. As noted in Figure 5-5, China's imports (largely oil) are overwhelmingly from Saudi Arabia, in contrast to Japan's, which flow from a more diverse range of countries, including very importantly the UAE and Qatar. Chinese imports from Saudi Arabia surged especially after 2009, as sanctions tightened against Iran, and the Saudis supplied extra production enabling China to cut back its reliance on the Iranians. China also imports a growing amount of oil from Oman—its largest Gulf supplier apart from Saudi Arabia—which is the only Gulf Arab nation lying outside

the Strait of Hormuz. Together with the low overall level of Chinese reliance on Gulf oil supplies, this relationship with Oman seems to indicate a systematic Chinese effort to minimize geopolitical risk to its oil supplies.

**Figure 5-5: CHINESE IMPORTS FROM THE GULF: BY COUNTRY**



Source: IMF Direction of Trade Statistics

There is one Gulf Arab energy relationship, however, that does paradoxically indicate a greater Chinese tolerance for political risk. That is the PRC's relationship with Iraq. In the face of the strong US political-military relationship with Iraq since 2003, China has nevertheless actively pursued oil exploration contracts with Iraq, and done so successfully. Indeed, the largest share of the initial contracts that the Iraqi government

concluded after re-opening oil exploration opportunities to foreign firms in 2008 went to Chinese firms.<sup>85</sup>

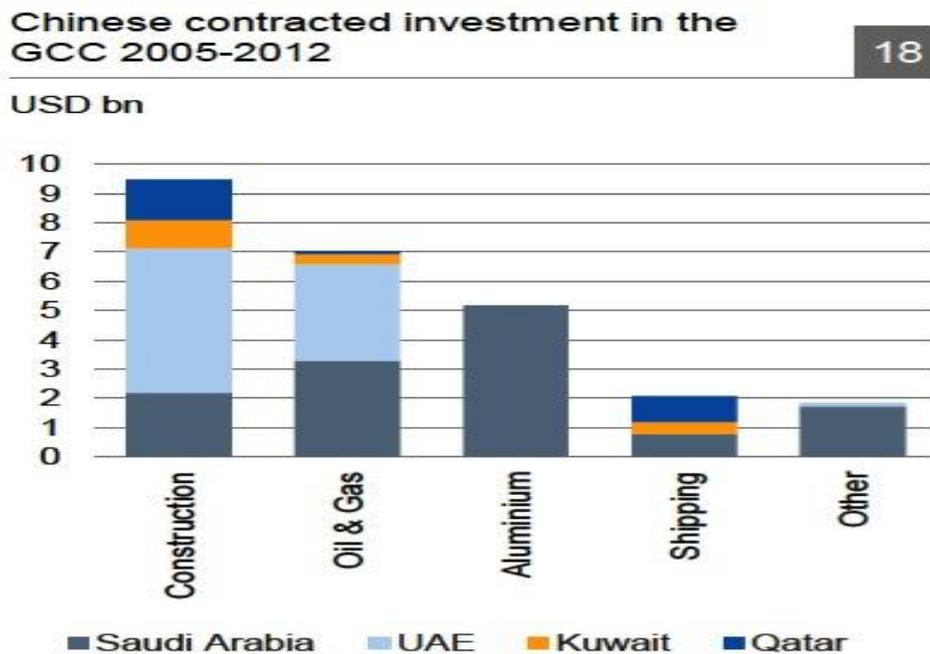
China's relationship with the GCC is not only a matter of trade. There is also an increasingly important investment dimension, as China becomes progressively a more and more important capital exporter. As indicated in Figure 5-6, the Chinese invested nearly \$10 billion in GCC construction projects between 2005 and 2012—more than in any other sector, including oil and gas. As the Asian Infrastructure Investment Bank (AIIB), based in Beijing, prepares to commence operations, the configuration of Chinese investments in the Gulf, and their broader geopolitical implications, is an important topic for future research.

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<sup>85</sup> In 2008 Petrochina and another Chinese oil firm, China Zhen Hua Oil, signed a \$3 billion contract with the Iraqi government for oil-exploration rights, which was the first major deal with foreign firms after the fall of Saddam in 2003. In 2009 Petrochina and a British firm obtained exploration rights in Iraq's biggest field, with over 10 percent of the country's oil reserves. See Mu Chunshan, "China's Iraq Investment", The Diplomat, July 25, 2011, at: <http://thediplomat.com>.

**Figure 5-6:**

**SECTORAL DISTRIBUTION OF CHINESE GCC INVESTMENTS (2005-2012)**



Sources: The Heritage Foundation, Deutsche Bank Research

Source: Kevin Korner and Oliver Masetti, "The GCC Going East: Economic ties with developing Asia on the rise," *Deutsche Bank Research*, February 18, 2014

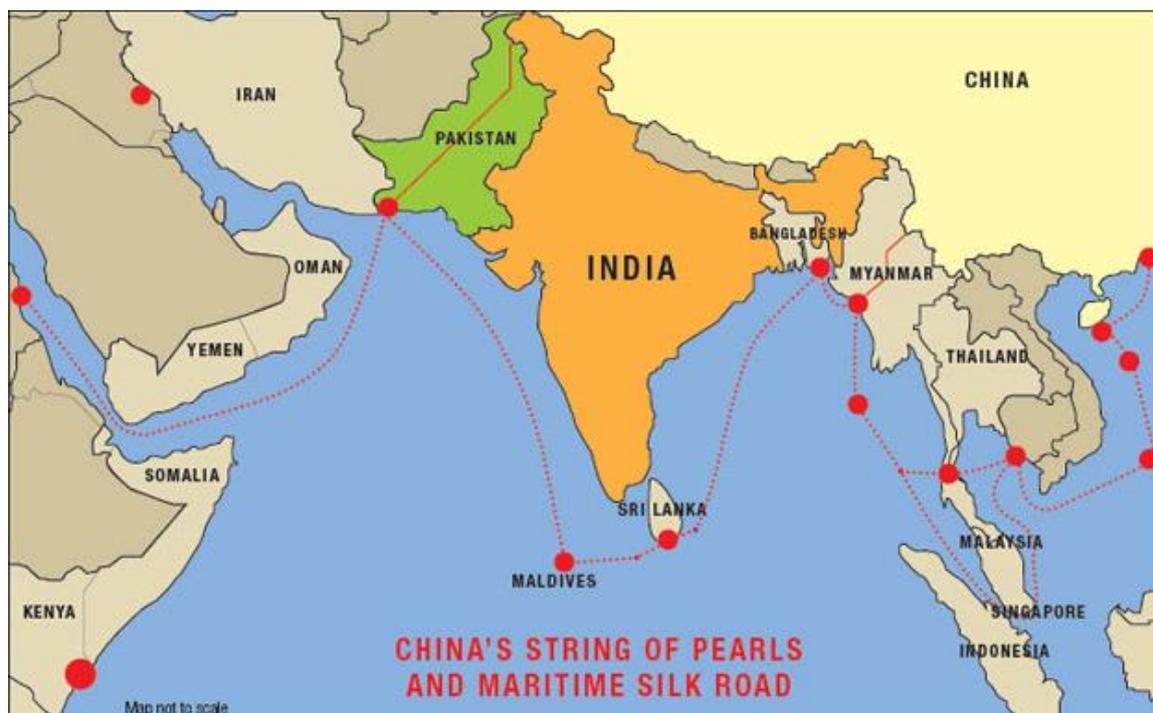
Although trade and investment configurations are major dimensions of the emerging Chinese presence in the Arabian Gulf, the most important dimension, in geopolitical terms, is clearly the presence of the Chinese military and militarily-related assets in the region, as well as along the energy sea lanes from Northeast Asia to the Gulf. Chinese political-military presence along the sea lanes began to rise after 2000, as Asia recovered from the financial crisis, and China became an increasingly large-scale oil importer. Chinese political-military presence in the vicinity of the Gulf itself

is more recent, dating from around 2008, as the anti-piracy campaign in the Gulf of Aden and the Indian Ocean grew more intense.

China's political-military presence in the energy sea lanes—what the Pentagon has called the “string of pearls”, presented in Figure 5-7—began with a communications station in the Cocos Islands in the Andaman Sea, provided by Myanmar's military government, around 2000. It was followed by construction of the Gwadar port in Pakistan, roughly 150 miles from the Strait of Hormuz, which was opened by Chinese Prime Minister Wen Jiabao in 2005. Subsequently, China also built deep-water ports at Chittagong in Bangladesh and Hambantota in Sri Lanka, which have dual civilian and military-use capabilities. China has also built an oil pipeline across Myanmar, from Kyaukpyu into Yunnan; and begun construction of analogous facilities in Pakistan, from Gwadar toward Xinjiang, and across the Isthmus of Kra in Thailand, in order to reduce the geopolitical risk of sea lane reliance. It has also strengthened overland energy-supply capabilities from Central Asia into China, thus reducing overall energy sea-lane reliance from 90 percent of China's oil imports in 2005 to around 80 percent today.

**Figure 5-7:**

**THE STRING OF PEARLS BETWEEN CHINA AND THE ARABIAN GULF**



Source: SP's naval forces, at: <http://www.spsnavalforces.com/story.asp?mid=38&id=1>

China has thus taken a variety of elaborate steps to enhance the security of its energy sea lanes, including some tentative steps—such as the recent sea trials of its new aircraft carrier, the *Liaoning*—toward the creation of a blue-water navy. What is striking, however, is how slow and relatively tentative these steps have been. While China has rapidly expanded its air force, developing both cruise missiles and stealth fighters, for example, it has not yet built full-fledged carrier battle groups. China has, to be sure, aggressively probed US and Japanese resolve in sea lanes close to its home territory, such as the East and South China Seas, including a very active land-fill program to build up small atolls, reefs, and even sub-

surface formations for strategic purposes. The PRC has, however, been remarkably defensive in political-military actions further from Chinese shores.<sup>86</sup>

Chinese involvement with anti-piracy operations in the Gulf of Aden illustrate the status-conscious, selective, national-interest oriented, but ultimately defensive character of Chinese political-military operations in the environs of the Gulf. These operations began in December, 2008, and have continued un-interrupted for over six years. Yet they have been relatively small-scale, and consistently multilateral in their configuration.<sup>87</sup> The only major unilateral actions have been the evacuation of Chinese citizens in the face of political turbulence in such nations as Libya and Yemen.<sup>88</sup>

Since the early 1990s, China has become an active participant in UN peacekeeping operations, especially in Africa. At the end of 2012, 1869 peacekeepers, including engineers, civilian police, medical units, and military observers, as well as some combat troops, were involved in UN

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<sup>86</sup> Andrew Erickson and Austin Strange. No Substitute for Experience: Chinese Anti-Piracy Operations in the Gulf of Aden. Newport: US Navan War College China Maritime Studies Institute, at: <https://www.usnwc.edu>.

<sup>87</sup> Andrew Erickson and Austin Strange, "China and the International Piracy Effort", The Diplomat, November, 2013, at: <http://thediplomat.com/2013/11/china-and-the-international-antipiracy-effort/>.

<sup>88</sup> On these evacuations, and broader Chinese unilateral efforts to safeguard citizens abroad, see Jonas Parello-Plesner and Mathieu Duchâtel. China's Strong Arm: Protecting Citizens and Assets Abroad. London: The International Institute for Strategic Studies, 2015, pp. 107-124.

peacekeeping operations.<sup>89</sup> In 2014 China also participated for the first time in RIMPAC, the world's largest maritime warfare exercise, hosted by the United States in the waters off Hawaii.<sup>90</sup>

## **IN CONCLUSION**

The Arabian Gulf is rapidly changing, along many dimensions: demographic, economic, and political. With the coming of the shale gas and shale oil revolution, the world of energy, upon which the fortunes of the Gulf so profoundly rest, is changing as well. New powers are arising, and re-shaping the geopolitical environment surrounding the Gulf. Without understanding the historic transformations underway, it is impossible to meaningfully assess how Japan and the US can realistically cooperate to further their enduring national interests, in this complex world of rapid change.

Among the most important realities we have discovered here is the obscure but fateful challenge of demography. The nations of the Gulf, and their environs, have remarkably young populations. Yet many of them—especially in the energy have-not periphery, such as Yemen—have unstable political economies that cannot readily generate jobs. Even if the jobs are

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<sup>89</sup> European Parliamentary Research Service, "China's Role in US Peacekeeping Operations", April 24, 2013, at: <http://epthinktank.edu>.

<sup>90</sup> Paul Sinclair, "China's growing international defense engagement", Asia New Zealand Foundation, at: <http://asianz.org.nz>.

available, as in the UAE and Qatar, local elites prefer to award them to compliant foreigners, especially Islamic migrants, from Pakistan, Bangladesh, India, or the Philippines. Local youth unemployment in many Arab states is thus explosively high.

Within the GCC itself, there is a continuing challenge of cohesion. External crisis has periodically propelled superficial unity, as during the Iran-Iraq War of the 1980s and the Gulf conflict of 1991, but it has not been enduring. Unity and meaningful integration have been especially difficult in strategic areas like finance, where integration could otherwise have fateful geopolitical implications for the broader world.

For four decades from the early 1970s, the Arabian Gulf, led by Saudi Arabia, was the global swing producer, capable through its production decisions of determining world energy prices, just as the East Texas fields were in a prior epoch. In the wake of the shale gas and oil revolution, the viability of Middle Eastern price leadership has come into question. Large-scale North American shale-energy exports appear unlikely for some time to come, but rising US energy self-sufficiency produces liquidity in broader global energy markets that presents another deepening challenge to Arab Gulf producers.

Two geopolitical challenges from outside put pressure on the nations of the Arab Gulf, and intensify the struggle for unity within the GCC. The first is Iran—a challenge in both geopolitical and also religious dimensions. The second is China—rising rapidly as both energy customer and supplier of manufacturers. Together, these dual challenges force the Gulf nations to be vigilant, and to search for allies. The United States and Japan make, for those Gulf nations, most promising partners, for reasons that we consider in the pages to come.

**CHAPTER SIX:**  
**OPPORTUNITIES FOR ENHANCED TRILATERAL COOPERATION**

As we have seen in the previous pages, the Arabian Gulf and its neighborhood are, in the early twenty-first century, being beset by a broad range of historic challenges. The populations of key nations—particularly poor and impoverished ones, in the shadow of oil-rich neighbors—are growing explosively. Yet volatile, unstable political economies in the Arc of Crisis around Saudi Arabia are not providing sufficient jobs. Both food and water are in short supply. On top of this basic human problems, the nations of the region are plagued by ethnic conflict, and the perverse maneuvering of outside powers, including conspicuously Iran and China,

Japan and the United States are both status-quo powers with substantial stakes in the stability of the Gulf and its ability to smoothly supply energy to the broader world. As such, they have a common interest in cooperating with the Arabian Gulf nations in both the economic and security realms, to help assure that stability is maintained, and that energy continues to flow outward from the Gulf, to the broader world. In this chapter, we outline some potential options for Tokyo and Washington, to assist in furthering this common stability objective.

To be sure, there are many status-quo partnerships that can constructively support the Gulf states and the “Arc of Crisis” surrounding

them. The US-Japan alliance has, however, several distinctive traits that render it especially potent in its support potential. First of all, the alliance is cross-cultural, giving it more credibility, in a part of the world with bitter experience at the hands of Western imperialism, than more ethnocentric coalitions of Western allies that include the former imperial masters themselves.

The US-Japan alliance is also distinctive in the complementarity of partner capabilities. Both nations are sea-faring countries, with major stakes in international trade. The United States, however, spends much more on its military, and has developed global air and naval capabilities, many of them offensive, that are second to none. Japan has a highly competent military with high-quality weapons, but it is significantly smaller, and defensively oriented. It does, however, have some specialized capabilities, such as minesweeping, which are world class, and in some instances stronger than those of the United States itself. This complementarity underlies the logic of cooperation.

### **Security**

The US, Japan, and the states of the Arabian Gulf share two overriding hard-security interests in common. On the one hand, they all support the stability of the Arabian peninsula and its environs. They also have a

common interest in the security of the sea lanes to the Gulf, since the lifeblood of that region—hydro-carbons—travels primarily by sea.

To understand the security challenges of the Arabian Gulf, one must first consider the disposition of forces and patterns of defense spending in the Gulf itself. As indicated in Table 6-1, Iran looms large in political-military terms, as we have already seen that it does in political-economic terms. It has over 500,000 men under arms, compared to 227,000 in Saudi Arabia, and much lesser numbers in the other GCC states. It also has the largest number of combat-capable aircraft in the Gulf, in the latest assessment of the International Institute of Strategic Studies, and is approaching the nuclear-weapons threshold, as is widely reported.

**Table 6-1: MILITARY FORCE LEVELS IN THE ARABIAN GULF (2013)**

<b>Country</b>	<b>Active Duty Forces</b>	<b>Combat Capable Aircraft</b>	<b>Defense Budget</b>
Iran	523,000	334 (mostly F-4 level)	\$14.8 b.
Saudi Arabia	227,000	313 (F-15 C and D)	\$ 80.8 b.
UAE	63,000	157 (F-16 E and F)	\$13.9 b.
Oman	42,600	44	\$9.6 b.
Kuwait	15,500	66	\$4.8 b.
Qatar	11,800	18	\$4.4 b.
Bahrain	8,200	39	\$1.3 b.

*Source:* International Institute for Strategic Studies, The Military Balance 2015.

It is true that much of Iran’s military equipment is approaching obsolescence; only 60 percent of its US planes (now over 35 years old) and 80 percent of its Russian and Chinese planes are believed to be serviceable,

due to absence of spare parts.<sup>91</sup> In some strategically important areas, such as anti-ship missiles, short-range (150-500 kilometer) ballistic missiles, and air-defense equipment, however, Iran's capabilities are both more operational and more technically advanced, due to assistance particularly from Russia.<sup>92</sup> One important area for US-Japan cooperation is thus working together to inhibit Iran from upgrading its capabilities still further in critical sectors like ship to ship missiles and air defense—not to mention the nuclear dimension—in the absence of international agreement on arms limitation.

Due to the imbalance of forces and capabilities in the Arabian Gulf between Iran and the GCC—which would be sharply intensified were Iran to obtain or develop nuclear weapons—the GCC nations welcome the presence of friendly foreign forces in the Gulf and its environs. The United States, of course, has had a naval presence in Bahrain since 1947; air and ground forces in Qatar and Kuwait respectively since the early 1990s; and recently deployed air forces in the UAE.<sup>93</sup> Since 2008 restrictions have been loosened on the mission of US troops in the UAE. And the US presence in

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<sup>91</sup> IISS. *The Military Balance*, 2015 edition, p. 326.

<sup>92</sup> Russian entities have helped the Iranian missile effort, in particular, in areas such as testing, training, and components. Russia's potential revenue in supplying Iran's military, industrial, and nuclear programs is estimated to be around \$10 billion/year. See John A. Lauder, "Russian Proliferation to Iran's Weapons of Mass Destruction and Missile Programs", before the Senate Committee on Foreign Relations, October 5, 2000, at: <http://www.iranwatch.org>; and Maseh Zarif, "Technology Sources from Iran's Nuclear Program", *AEI Iran Tracker*, July 24, 2009, at: <http://www.irantracker.org/nuclear-program/technology-sources-irans-nuclear-program>.

<sup>93</sup> In 2014, there were 8000 US troops at al-Udeid Air Base in Qatar; 5000 in the UAE, and 13,000 in Kuwait, mainly US Army personnel at Camp Doha. The US also maintained a highly strategic air and naval base attached to the US Pacific Command on Diego Garcia, in the British Indian Ocean Territory. See *Ibid*.

the UAE has expanded quantitatively as well, especially since 2012. In 2012, for example, the US relocated a squadron of F-15C Strike Eagle fighters from Bagram Air Force Base in Afghanistan, and in 2013 a half-dozen F-22s, as well as Global Hawk long-range drones, to the UAE.<sup>94</sup> Britain withdrew from the Gulf in the 1970s, but France has recently established a naval base in the UAE, and seems intent on increasing its presence in the Gulf generally.

One emerging issue for US-Japan security cooperation in relation to the Gulf is how Japan might serve the common security interest of the two countries in keeping the flow of energy from the Gulf unimpeded. This is a critical security interest of Japan, in particular, since around 85 percent of Japan's entire oil consumption comes ultimately from the Gulf. This flow could potentially be impeded by (1) political developments in the Gulf itself, such as Saddam Hussein's invasion of Kuwait in August, 1990; (2) by interdiction of or covert attacks on tankers in the Gulf, as happened during the Iran-Iraq War of the 1980s; (3) by closure of the Strait of Hormuz, most probably by Iran, which has not occurred, but is plausible; or (4) by threats beyond the Gulf to the sea lanes.

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<sup>94</sup> The US Air Force has also set up a joint planning center at Dhafra in the UAE to share sensitive targeting and intelligence reports. See Rajiv Chandrasekaran, "The UAE, the US has a little but potent ally nicknamed 'Little Sparta'," [The Washington Post](#), November 8, 2014.

Of these various possible contingencies, US-Japan cooperation would be most important with respect to #3 and #4. In both cases, Japan's formidable mine-sweeping capabilities—arguably the most substantial in the world—would be an invaluable asset. Japan currently has 35 mine warfare and countermeasures ships, compared to only 11 for the US Navy, 16 for the British Navy, and 5 for Iran.<sup>95</sup> Were the Iranians to lay mines in the Strait of Hormuz or its environs, in an attempt to impede the flow of shipping, Japan could play a critical role in helping to take them out or neutralize them. Japanese minesweeping could be important in other parts of the 7000-mile long energy sea lanes from the Gulf to Japan's home waters as well.

For Japan's substantial minesweeping capabilities to be of concrete assistance to the international community, including the GCC nations and the United States, two important preconditions would need to pertain: (1) Japan would need to actively affirm its willingness to engage in collective self-defense; and (2) Japan would need basing facilities for its minesweepers somewhere in reasonable proximity to the Gulf. Every US Ambassador to Japan since at least 1990 has explicitly supported the active Japanese exercise of collective self-defense, and Prime Minister Shinzo Abe has, during 2015, taken important steps to affirm collective self-defense as

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<sup>95</sup> Ibid.

Japanese public policy. Japan has, since 2011, had MSDF basing facilities in Djibouti, to support the multilateral struggle against piracy,<sup>96</sup> and has reportedly been exploring the possibility of expanded MSDF cooperation with Oman, which Prime Minister Abe has visited in January, 2014, on sea-lane defense around the Strait of Hormuz, as well as on energy development and other economic issues.<sup>97</sup>

Oman is a particularly strategic theater for future US-Japan cooperation in the Arabian Gulf area for several reasons:

- 1) It has the geostrategic advantage of being located next to the Gulf itself, but outside the Strait of Hormuz; oil production and oil storage facilities there are thus less subject to hostile interdiction, potentially by the Iranians, than those inside the Gulf, in the UAE, Saudi Arabia, Qatar, or Kuwait.
- 2) It has stable relations with both the Arab side of the Gulf and also Iran. The only other GCC nation that enjoys working relations with Teheran is Qatar, which unlike Oman has contentious relations with both Saudi Arabia and the UAE.
- 3) It lacks the complex internal ethnic and religious politics, or territorial disputes, that make nations such as Bahrain, Yemen, and

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<sup>96</sup> Alex Martin, "First Overseas Military Base since WW II to Open in Djibouti", [Japan Times](#), July 2, 2011.

<sup>97</sup> Iori Kawate, "Abe Visiting Middle East, Africa to Lead Push by Japan Firms", [Nikkei Asian Review](#), January 10, 2014.

the UAE subject to distinctive pressure from Teheran, and subject to the danger of local instability.

- 4) Oman has strong traditional relations with India, located less than 1000 miles away across the Arabian Sea.

Oman currently hosts no foreign military bases, and is arguably a prime candidate for some increased Japanese naval presence, if and when Japan decides to enhance its MSDF capabilities in the Arabian Gulf area. Such a presence could be an important step forward in operationalizing more intense US-Japan cooperation around the Arabian Gulf. Deepened relations with Oman could also benefit Japan in developing broader relations across the Gulf, as Oman has unusually broad communication channels on both the Arab and the Iranian sides of the Gulf.

National security stands, of course, on economic as well as military foundations. In thinking about the stability of the Arabian peninsula and the “arc of crisis” that surrounds it, it is important to be continually conscious of the economic issues related to security that the Gulf’s own geography implies. As indicated in Figure 6-1, Saudi Arabia lies at the core of the Arabian peninsula, flanked by the other five GCC states (UAE, Qatar, Kuwait, Bahrain and Oman) on the southern shores of the Gulf, confronting Iran, on the Gulf’s northern shores. The GCC nations themselves are by and large stable and affluent, although they have internal tensions on which we

shall elaborate later. The over-riding stability challenge of the Arabian Gulf, however, lies in the employment difficulties, together with the elemental food and water problems of the unstable surrounding states, including Yemen, Iraq, and Syria, as well, potentially, as Jordan, Oman, and Egypt.

**Figure 6-1:**

**MAP OF ARABIAN PENINSULA AND SURROUNDING ARC OF CRISIS**



Source: Middle East (Reference Map) 2004, Perry-Castañeda Library Map Collection, The University of Texas-Austin, [http://www.lib.utexas.edu/maps/middle\\_east\\_and\\_asia/middle\\_east\\_ref04.jpg](http://www.lib.utexas.edu/maps/middle_east_and_asia/middle_east_ref04.jpg)

Addressing the socio-economic challenges prevailing in the Arc of Crisis surrounding the Gulf is a task for which the US and Japan in combination are much better suited than those two countries (or any

countries) alone. The United States naturally has the political-military experience and intelligence capabilities in the region to assess with maximum accuracy the problems of individual countries. It also has expertise to deal with food and water security issues that are especially salient in these members of the “Arc of Crisis”. Japan, on the other hand, has a complementary peace-building orientation and expertise in energy efficiency that nations such as Yemen, Jordan, and Iraq also badly need.

It may seem paradoxical to stress energy efficiency in a part of the world with the largest hydro-carbon reserves on earth. The Middle East, however, has the lowest energy-usage efficiency of any part of the world.<sup>98</sup> And it also has the highest carbon dioxide emissions per capita on earth.<sup>99</sup>

For energy-poor parts of the region, the logic of increased efficiency is obvious. For the energy-rich Gulf states, energy conservation also makes sense, because energy is fungible; if these nations do not use the energy, they can store it for a future when resources will be more scarce. Apart from energy efficiency, increased supplies—and higher quality—of food and water are also natural regional priorities—for both the GCC members

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<sup>98</sup> Among 105 countries surveyed in the 2013 World Economic Forum Energy Architecture Performance (EAPI) rankings, GCC members ranked as follows: Saudi Arabia (#82); UAE (87); Qatar (92); Kuwait (95); and Bahrain (99). Iran ranked 96<sup>th</sup>. See World Economic Forum. The Global EAPI Report, 2013 edition, at: <http://www3.weforum.org>.

<sup>99</sup> The top four global rankings in carbon dioxide emissions per capital are the highest in the world, with Qatar in first place and the UAE record. See Kristian Coates Ulrichsen. The GCC States and the Shifting Balance of Global Power. Qatar: Georgetown University Center for International and Regional Studies, 2010, p. 12.

(largely on a commercial basis) and for the Arc of Crisis nations (through ODA from the US, Japan, and the GCC states as well).

The United States and Japan are two of the largest donors to the Arc of Crisis nations. In 2012 the US was the largest bilateral donor to Iraq, Jordan, Yemen, Lebanon, and the Palestinian Authority. Japan was second in Iraq.<sup>100</sup> Both Washington and Tokyo have focused their ODA efforts heavily on energy, water, and food, albeit with slightly different areas of concentration.

The US has prioritized education, democratic governance, nutrition, and poverty reduction.<sup>101</sup> It has also, like Japan, placed emphasis on water supplies; health care; and electricity. Japanese ODA has had a stronger infrastructure, energy, and, interestingly, agricultural bias, including support for Jordan's largest-ever solar-power generation complex, and its "Corridor for Peace and Prosperity Initiative" in the Jordan River Valley, which includes establishment of the Jericho Agricultural and Industrial Park.<sup>102</sup> In Yemen, which has minimal oil and gas relative to that possessed by the GCC nations, Japan has also been supporting solar-power

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<sup>100</sup> See World Bank World Development Indicators, Distribution of Net Aid by DAC Members, at: <http://wdi.worldbank.org/table/6.12>.

<sup>101</sup> See US Department of State Bureau of Near Eastern Affairs Fact Sheets for Iraq; Yemen; West Bank and Gaza; Jordan; and Lebanon, at: <http://www.state.gov>.

<sup>102</sup> "Japan's Assistance to the Palestinians" (January, 2015), at: <http://www.mofa.go.jp>.

generation; food aid (through the World Food Program), and rural water-supply projects.<sup>103</sup>

Beyond the environs of the Gulf itself, US-Japan cooperation in the sea lanes from Hormuz to Yokohama is also critically important to a crucial objective of the alliance: keeping Japan economically strong. As noted earlier, US naval preeminence in the Indian Ocean is unassailable for at least a generation, due to America's formidable blue-water navy, with its eleven carrier battle groups, and the formidable US naval and air base complex at Diego Garcia. As we also noted, the incremental marginal costs of maintaining both the carriers and Diego are relatively limited, so the much-debated US fiscal difficulties should actually not have much bearing on prospects for US preeminence. China may well have more leverage in waters closer to China itself, where its area-denial capabilities are rising, but it also is dependent on the energy sea lanes to the Gulf, making it likely supportive of status-quo arrangements that assure its own stable access to needed Middle East resources.

The implication of this complex geopolitical situation in the sea lanes for US-Japan cooperation is that the two countries should pursue a balanced strategy with two key components: (1) Maintaining military preeminence, while strengthening defensive capabilities such as

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<sup>103</sup> "Japan's ODA Data for Yemen", at: <http://www.mofa.go.jp>.

minesweeping; and (2) Re-assuring third parties that freedom of navigation in the sea lanes will be observed, through multilateral confidence-building measures, such as the anti-piracy missions and RIMPAC, in which both the US and Japan participate jointly with such other major nations as China. Through this two-pronged strategy, the allies will hopefully be able to give China incentives not to engage in blue-water naval competition, which would be ruinously expensive to all parties concerned, without measurably improving the security of any.

### **Economics**

Japan and the United States, of course, are the largest free-market economies in the world. And the GCC nations are, collectively, the largest energy producers, and some of the largest financial surplus nations on earth. From a global standpoint, this triad together can do much to enhance global economic stability, and simultaneously their own prosperity.

What can Japan and the US do jointly to catalyze the potential of this strategic US-Japan-GCC triad? Most importantly, they can encourage the Gulf nations to help set a positive global agenda on energy-efficiency, food security, job training, education, and environmental protection, by stressing the benefits to regional security from Gulf initiatives on these important agendas. As we noted previously, the Gulf nations themselves

are both affluent and temporarily stable. They are, however, surrounded by much more unstable nations in the “Arc of Crisis”, for whom initiatives in the foregoing areas would have potentially decisive stabilizing implications.

Japan and the US can serve as a catalyst for future-oriented GCC initiatives on energy, food, employment, and education issues by providing technical expertise, help in accessing multilateral institutions, and, where decisive, symbolic financial assistance of their own. Universities, as well as think tanks such as the Sasakawa Foundation, Qatar Foundation, Gates Foundation, Ford Foundation, Japan Institute for International Affairs (JIIA) and the Research Institute on International Economic Issues (RIETI), can play an important role in this process. New institutions in the Gulf, such as Education City in Qatar; Dubai Knowledge Village; and Dubai International Academic City, should also play a key role in this global agenda-setting process.

The US and Japan can also cooperate to encourage healthy Middle Eastern regional interaction, with a central role for the Gulf as well. The UAE has, for example, recently undertaken to support construction of one million middle-class homes in Egypt, thus promoting political-economic

stability there;<sup>104</sup> the US and Japan, which also have major aid programs in Egypt, could constructively cooperate with such initiatives.

### **IN CONCLUSION**

Japan and the United States are far geographically from the Arabian Gulf, but they are intimately interdependent with the Gulf, in both security and economic terms. As the two largest free-market economies in the world, there is much they can do to promote both stability and prosperity in the Gulf, its environs, and in the energy sea lanes from Hormuz to Yokohama. Through their joint effort, Tokyo and Washington can also encourage the Gulf nations to play a far-sighted global agenda-setting role on energy, food, employment, and environmental questions, that is commensurate with the resources that the affluent Gulf nations have at their command. In a world of scarcity, the GCC nations are potentially crucial agenda setters on issues of central importance to all mankind.

Without security, the Gulf nations obviously cannot afford to be enlightened global agenda setters. The US and Japan need to cooperate so as to assure that threats to the stable flow of resources from the Gulf are contained. Concretely, this means support for political stability in the Gulf and its environs, and also opposition to any interdiction of navigation in the

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<sup>104</sup> Asma Alsharif, "UAE's Arabtec agrees \$40 billion housing project, with Egypt army", [reuters.com](http://www.reuters.com), at: <http://www.reuters.com>.

Gulf and the Strait of Hormuz. Japan's role in minesweeping could be particularly important, but to be credible would need to involve both active collective security steps and also possibly forward deployment, perhaps in Oman.

The US and Japan also share an important prospective economic agenda with the nations of the GCC, centering on energy efficiency; food security; employment; education; and environmental protection. This may sound like an idealistic liberal agenda, but it is rooted in the concrete political-economic requirements of the "Arc of Crisis" surrounding the Arabian peninsula. Apart from this sector-specific agenda, Japan and the United States also share an interest in a dampening of rivalries within the GCC, and its institutional strengthening, as a force for stability in an increasingly volatile world.

**CHAPTER SEVEN:**  
**IMPLICATIONS FOR THE UNITED STATES AND JAPAN**

This monograph has focused on the changing circumstances of the Arabian Gulf, the challenges it confronts, and how the United States and Japan can help in ameliorating those challenges. Their common actions, of course, could have significant consequences for the two nations, and for world affairs more generally, although we have not had occasion to clearly articulate them as yet. Now it is time to assess those prospective consequences, and thus to affirm why the current research is significant, and what implications for future policy it might imply.

One can consider the utility of this research, and of US-Japan-GCC cooperation, along four dimensions: (1) the value to each of the three partners individually; (2) the value to the world as a whole; (3) the value to the US-Japan alliance; and (4) the heuristic value in elaborating important questions for further study. This chapter will review this work along these varied dimensions, giving special attention to policy implications in each area. It will, in conclusion, devote particular attention to ways in which the “trilateral” paradigm of analysis can be particularly useful in developing and operationalizing concrete prescriptions for policy cooperation in US-Japan relations, and why this paradigm is growing increasingly important in the twenty-first century.

## **Implications for the United States**

The US has effectively been, since the Iranian Revolution and the British withdrawal from east of Suez at the end of the 1970s, the “guardian of the Gulf”. The political, military, and in some ways economic fate of the Arab states along the Gulf’s southern shores has lain to a substantial degree in America’s hands. Yet Washington’s fiscal and political willingness to bear that burden has seriously begun to wane, in the wake of conflicts in Iraq and Afghanistan that continued for well over a decade, at a collective cost already of over two trillion dollars, with billions more in veterans benefits still to come.

In the wake of two long military engagements in the Islamic world, the issue of how much more blood and treasure to spend there is a lively one in American politics. After a decade and a half of ongoing warfare since the 9/11 attacks—the longest period of continuous armed conflict overseas in US history—many Americans are growing weary of overseas commitments and appalled at the cost. Yet they are also outraged at the barbarity and inhumanity of terrorism, and generally aware that their country inevitably plays a unique global role. Most Americans—especially those in the policy process-- would agree, however, that continued active involvement in the Islamic world is very much in US interest, provided that the human costs are not exorbitant, and there are concrete ways to share

them with allies. This research has provided some concrete suggestions as to how that might be done.

It should be clear that Americans do not expect Japan to play a major “boots on the ground” role in confronting the Islamic State. They themselves are contemplating largely air and naval engagement; US advocacy that Japan actively pursue collective self-defense is intended only to secure Japanese support, mainly through minesweeping, in sea lane defense. Japanese support, through sea lane defense and active ODA to vulnerable nations of the “Arc of Crisis” and along the sea lanes to the Gulf, would, however, be valuable, from an American perspective.

### **Implications for Japan**

Japan, as we have repeatedly stressed, obtains five sixths of its entire oil supply from the Arabian Gulf, and that dependence is unlikely to dissipate very soon. The stability of the Gulf, and its neighbors in the “Arc of Crisis”, is thus a fundamental economic-security interest for Japan. Yet Japan cannot realize that vital underlying national interest through its own efforts alone.

US engagement, as the world’s preeminent superpower, in maintaining the security of the Gulf and the energy sea lanes from Japan to the Gulf is absolutely vital to Japanese national interests. Washington has

consistently pursued Arabian Gulf security for its own reasons since shortly after World War II, stepping into the gap left by Britain and the Shah's Iran when their presence in the Gulf declined. Yet those intrinsic reasons of its own for which Washington would maintain Gulf security largely by itself are now being eroded by the Shale Gas and Shale Oil Revolutions, which make energy a less compelling reason for US involvement.

It is thus in Japan's interest to be proactive in cooperating with the United States in limited ways, such as development assistance for the Arc of Crisis and littoral nations along the sea lanes, including those surrounding the Bay of Bengal. Expanded involvement in Oman, including increased economic support; infrastructural assistance (as in pipeline and oil-storage construction); and possibly deployment of mine-sweepers in crisis situations, could also be in Japan's interest, to enhance effective cooperation with the United States. Due to its broad regional networks, Oman could also be a useful partner for Japan in regional peace-building efforts.

### **Implications for the Gulf Arab Nations**

Earlier in this monograph we note a variety of pressing challenges that the Arab Gulf nations and their Arc of Crisis neighbors increasingly confront: demography, food security, energy efficiency, employment,

education, and so on. Effectively meeting these challenges could make the difference between stability and chaos, especially for the Arc of Crisis nations. And over the long run the fate of the Arab Gulf and the Arc of Crisis are inextricably linked.

Cooperation from the United States and Japan could be vital in meeting these impending challenges, while a credible US-Japan partnership could be vital in maintaining the economic foundations of American Arab Gulf involvement as well. US involvement will certainly be vital on the security side, especially as Iran develops greater nuclear capabilities. Japan has much to contribute also, both in soft security (energy efficiency, in particular) and also, in cooperation with the United States, along harder dimensions, such as mine-sweeping in the event of a hostile blockade of the Strait of Hormuz.

The most intense political-economic challenges in the Gulf region, we have found, are in the “Arc of Crisis” nations surrounding the Gulf, rather than in the GCC member countries themselves. Yemen, Iraq, Syria, the West Bank, Gaza, and even Egypt are the greatest threats to peace and security, apart from Iran. As the conflict in Afghanistan winds down, it is vital that both the US and Japan redirect resources intensively and systematically to the socio-economic problems of the Arc of Crisis nations, and strongly encourage the wealthy nations of the GCC to do so as well.

## **Global Utility**

For most of the post-World War II era, oil and gas exports from the Gulf have been vital to Asian and European economic growth, and through stable energy prices to global growth as well. Since the 1970s, the Gulf's role in smoothly re-cycling its rising financial surpluses has also been fundamental to world economic stability and progress. These felicitous outcomes would not have been easily attained without cooperation within the strategic triangle outlined here, with the cooperation of the US and the GCC being especially central.

There is strong reason to believe that US-Japan-GCC collaboration could become even more vital, from a global perspective, in coming years, especially if the role of Iran continues to be destabilizing. The US security commitment will be important, but costly for Washington and the American people; Japanese and GCC support can help defray those costs, and hence help assure that Washington continues to be engaged. This equation could pertain especially with respect to development assistance in the Arc of Crisis; Washington will have few resources for that, yet assistance will be needed. Egypt; the Palestinian state; Jordan; Yemen; and Oman are among the areas where development cooperation among the strategic triangle could be especially productive from a broader global standpoint. Both in those areas and with respect to piracy and some

aspects of sea lane defense, multilateral approaches with the US, Japan, and the GCC at the core could be especially productive, as the issues fundamentally involve cooperative security.

### **Dividends for the US-Japan Alliance**

Although the United States and Japan have never fought shoulder to shoulder in a major armed conflict, their defense alliance has been remarkably durable and effective, in both Asia-Pacific regional and in global terms. It has endured well over sixty years—extremely long as alliances go historically; supported US operations in Korea, Vietnam, and the Gulf; and helped through trans-Pacific financial flows in provoking the collapse of the Soviet Union. All those have been outcomes of crucial importance for both nations, and for world stability.

The US-Japan alliance, however, has previously operated mainly in the Asia-Pacific region. To the extent (as during the 1990-1991 Desert Shield and Desert Storm crises) that it functioned further afield, the Japanese political-military role was extremely limited, and Japan's major function was largely to provide large amounts of cash. The range of issues confronting the US-Japan-GCC strategic triangle today and in future are much broader, and the questions of Japanese and GCC integration are more

ambitious. Hopefully this research has been useful in helping to conceptualize them.

Both the US and Japan today live increasingly in a global world. Many of the most pressing security problems that both confront—nuclear proliferation, energy efficiency, financial stability, cyber-security, terrorism, container security, and environmental pollution—are inevitably global. So the alliance itself needs to operate globally. Given the inevitable parochialism of domestic public opinion, however, stimulus from outside can hopefully help to broaden horizons closer to the required global level. That is one of the most important benefits of the trilateral approach to the Arabian Gulf suggested here.

### **Issues for Future Research**

The principal analytical contribution of this research may be to highlight the importance of trilateral approaches to US-Japan relations. The agenda of US-Japan relations inevitably needs to become more global, for reasons discussed above, although parochial domestic forces and established interests from an earlier era tend to give it a more conventional and bilateral bias. Trilateral analysis, where ways of deepening bilateral alliance cooperation are discussed in specific third-party contexts, such as

the Middle East or South Asia, is one good way to dilute or overcome this important but narrow trans-Pacific bias.

This monograph has dealt with US-Japan cooperation in the Arabian Gulf, both directly and in motivating third parties, such as the GCC, to pursue objectives clearly in the US-Japan interest. The Gulf is clearly a most important theater for applying this trilateral concept, for reasons that have become clear. Under US Secretary of State Hillary Clinton, this concept was applied to trilateral relations among the US, Japan, and India, extending it to a limited degree to relations with Kazakhstan and Mongolia, among others. US administrations have given attention to US-Japan-Korea trilateral relations since the Kennedy-Reischauer years in the 1960s, and even before.

In an era when national boundaries are blurring, amidst interdependence, and external stimuli are increasingly important in foreign policy formulation, there are many other areas of the world where the trilateral concept can be productively applied, to identify attractive joint policy priorities for the United States and Japan, and to mobilize domestic political support on their behalf . It could, for example, be used to define roles and missions in relation to major powers such as Russia and China. It could also be used to delineate responsibilities with respect to strategic areas of the world.

One particularly important yet heretofore neglected area in that regard could be the Bay of Bengal, touched by India, Myanmar, Sri Lanka, and Bangladesh, and contested by China. The region is strategically important, both as a crucial way station on the energy sea lanes from Northeast Asia to the Gulf, and as a possible exit point from China to the Indian Ocean, that circumvents the Strait of Malacca. The Bay of Bengal is an area in flux politically, whose fortunes can be shaped through judicious assistance. And it is a region where Japan has long been held in high regard, and where Japanese development assistance has contributed much to local socio-economic progress.

A second topic deserving further study is the utility of multilateralism. There are, to be sure, situations where it could undermine the deterrent capacity of bilateral alliances, and those must be avoided at all costs. Multilateralism can also, however, be potentially valuable as a confidence-building measure, even with potential adversaries, as in the Gulf of Aden anti-piracy operation, and the broader utility of such approaches needs more study.

### **IN CONCLUSION**

The US-Japan relationship has classically been conceived in Asia-Pacific terms, and the direct bilateral ties between the two great market

economies of the world will no doubt always be a core concern for both Tokyo and Washington. The world, however, is growing increasingly global, and Pacific affairs are no longer the sole or even central concern of these two great powers. At the heart of the broader concerns of both nations is a quintessentially global topic: the Arabian Gulf, which holds over half of the oil reserves, and a third of the gas, for the entire world.

Japan gets around 85 percent of its oil, and almost one third of its natural gas from the Gulf. The United States, while less trade-dependent on the Gulf, has major financial ties, and relies on the GCC nations increasingly as surrogates in helping stabilize a vital part of the world from which it is disengaging its ground forces after more than a decade of war. So developments in the Gulf have major implications for both the US and Japan.

The nations of the Gulf, as we have seen, are among the wealthiest on earth, holding over ten percent of the world's foreign-exchange reserves in a region with substantially less than one percent of the world's people. Yet the GCC countries have serious divisions of their own, and are surrounded by an Arc of Crisis consisting of much more unstable nations. Seeing the region stabilized is thus a challenge that is both difficult and a matter of considerable importance to both the US and Japan.

The US and Japan approach the challenge of contributing to Arabian Gulf stability from contrasting but complementary backgrounds and perspectives. The US, as the preeminent global superpower, has the political-military resources and the experience to contribute in the hard-security realm. Japan, which has heretofore been a first-rank economic superpower, but with an under-developed political-military dimension, can most easily contribute to peace-building rather than deterrence. Through their interaction, however, Japan and the United States can learn from one another. And the challenges of helping stabilize a crucial region of the world can become a means of broadening their alliance, while deepening national capabilities as well.

