

Oil for Technology: Saudi Arabia – Japan Multi-Layered Reciprocal Relations, 1955-2018

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Doctor of Philosophy in Arab and Islamic Studies, May 2019

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Abstract

2015 marked the 60th anniversary of the establishment of diplomatic relations between Saudi Arabia and Japan. This dissertation analyses more than six decades of bilateral relationship from 1955 and shows how and why it has shifted from a simply economy-incentive cooperation to multi-layered reciprocal relations. This work does it by studying four distinctive phases of relations, which are: 1) Japan's first oil development and the 1973 oil crisis: 1955-1975; 2) Development of economic and technical cooperation following the 1975 bilateral agreement: 1975-1990; 3) Enhancement of multi-layered reciprocal relations: 1990-2013; and 4) Japan's techno-economic diplomacy on energy and security under the second Abe administration: 2013-2018.

This dissertation argues that Saudi–Japanese relations obey to the following guideline: (Saudi) oil for (Japanese) technology. In other words, Japanese technical expertise has been crucial for Saudi Arabia to modernize its economy since the 1960s while Saudi oil has been vital for Japan to develop its manufacturing industry during the same period. Although this relationship has experienced some turbulent period, the oil crisis in the 1970s only reinforced the perception in Tokyo that political stability in the Gulf is indispensable to maintain sustainable Japanese economic growth. The bilateral partnership of the 'Saudi–Japan Vision 2030', formulated in October 2016, shall be understood in this historical context. For Saudi Arabia, the Japanese package of cooperation for investment, technology transfer and human resource development is perceived as a much-needed economic engine to revitalize its economy and local industries,

while the Japanese government has identified synergy effects on their economic growth initiative of 'Abenomics'.

In order to develop this argument, this dissertation relies on more than 50 personal interviews (undertaken with retired Japanese ambassadors and diplomats, Saudi officials and Saudi-Japanese joint venture company executives etc.), on personal observation conducted during the author's work assignments between 2011 and 2015, and on governmental documents and diplomatic cables. In particular, Japanese Ministry of Foreign Affairs' diplomatic cables and documents which had never been thoroughly and comprehensively investigated have provided an invaluable resource for this research.

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Chapter 1: Introduction

1.1 Why Japan? Why Saudi Arabia?

This research investigates how the Saudi – Japanese bilateral relationship has developed since the establishment of diplomatic relations between the two countries in 1955. In the context of recent challenges of shifting economic models, ambitions of Saudi Arabia and Japan are to capitalize on their complementary and new bilateral economic relations to revitalize both countries' economies and to achieve sustainable economic and social growth. The implications of the current economic situation for both countries are, firstly, a paradigm shift in the macro-economic development scheme. In recent years, Saudi economic development has been moving from a government-centric model to a market-driven model, while the Japanese inward trend of economic protectionism has tried to extensively adapt to international business standards. Secondly, both governments have broad ambitions to capitalize on economic and trade disparities with neighbouring regions. The Saudi government's aim has been to leverage its comparatively strong position in the region and secure unexplored business opportunities in Africa, while the Japanese business approach has been to expand captive markets in South East Asia.

In this context, the two national economic initiatives seem to move in a complementary direction. These are, namely, the Japanese four year-old stagnant economic initiative, known as Abenomics¹, which aims to achieve long-

¹ Government of Japan. 'Abenomics. For future growth, for future generations, and for a future Japan' (January 2018). Available at:

term growth through developing the domestic economy and expanding to the international market; and the Saudi economic diversification initiative, known as Vision 2030², with ambitions for the Kingdom to become the economic heart of the Arab and Islamic world, an investment powerhouse, and the hub for trade and business connections in the region. The envisioned joint investments are aimed to increase globally, for example through participation in each other's backyard markets by offering complementary strategic directions in the markets in the Middle East, Africa and South Asia. Japanese direct investments in South Eastern countries are without comparison in the Middle East, while Saudi Arabian investments in South Asia remain limited. The Abenomics initiative showed some success in relation to deregulation, tourism, the medical sector and agriculture, but it was not able to produce effective results in relation to ordinary consumption activities. The initial Abenomics plan had focused on a financial scheme and fiscal growth strategies and ended in 2015. Japan's growth rate in 2016 was about 1% and its productivity improvement was not as significant as had been expected. Also, contrary to Saudi Arabia, the decline of the Japanese population that began in 2008 was also a factor affecting economic growth. In order to recover population growth and improve productivity, the Japanese government set up, in September 2015, new Abenomics pillars, such as a 'Robust economy that creates hope', 'Child care support that fosters dreams', and 'social security that fosters sense of safety'.³ In addition, the 'Future Investment Strategy for

<https://www.japan.go.jp/abenomics/index.html> (accessed on March 20, 2018).

² Government of Saudi Arabia, 'Vision 2030' (2016). Available at: <http://vision2030.gov.sa/en> (accessed on March 20, 2018).

³ 'Abenomics 2.0: the New Three Arrows', SMAM Market Keyword (No.083), *Sumitomo Mitsui Asset Management (Hong Kong) Limited*. (October 26, 2015). Available at: https://www.smam-jp.com/documents/www/english/market_info/2015/10/26/SMAM_Market_Keyword_No0

Realizing Society 5.0' was developed to promote the utilization of the new technologies of artificial intelligence, Internet of Things technology and robotics. These new technologies are in great demand in Saudi society too where the younger generation represents the majority of the population. A synergistic effect with Vision 2030 is therefore perceived as realistic outcome.

As for Saudi Arabia, Vision 2030, supported by the National Transformation Programme (NTP), is a comprehensive economic roadmap developed by the regime for the socio-economic modernization of the country. Such an initiative is not new in Saudi history. As described in Chapter 3, the need for economic reform, called at the time 'industrialization strategy',⁴ was already emphasized in the 1980s,⁵ along with the Third (1980-85) and Fourth (1985-90) national Development Plans. The announcements by Crown Prince 'Abd Allah of Saudi Gas Initiative and Gas Round between 1998 and 2002⁶ were subsequent significant strategies for economic reform, putting a special emphasis on foreign investment. Later, in January 2003, Crown Prince 'Abd Allah announced the 'Charter for Reform of the Arab Condition', which advocated for Arab countries' economic and social reform.⁷ He also faced the pressure of the Saudi society, as illustrated by the public petition addressed to him by Saudi intellectuals entitled 'Vision for the Present and the Future of the Homeland', calling for reforms and

[83.pdf](#) (accessed on February 11, 2019).

⁴ Looney, Robert E., 'Saudi Arabia's industrialization strategy: A question of comparative Advantage' in Elie Kedourie and Sylvia G.Ham (eds.), *Essays on the economic history of the Middle East* (London: Frank Cass, 1988), pp.177-193.

⁵ Cordesman, Anthony H., *Saudi Arabia enters the twenty-first century: The political, foreign policy, economic, and energy dimensions*, (Connecticut: Praeger Publishers, 2003), vol. 1, pp.406-407.

⁶ Simmons, Matthew R., *Twilight in the desert: the coming Saudi oil shock and the world economy*. (New Jersey: John Wiley & Sons, 2006): pp.254-255.

⁷ Aarts, Paul, and Gerd Nonneman, *Saudi Arabia in the balance. Political economy, society, foreign affairs* (London: Hurst & Co., 2005): p.225.

the enhancement of rights protection.

In this context, the Saudi–Japan Vision 2030 initiative was announced in 2016.⁸ This joint vision has an ambition to herald an advanced relations between Saudi Arabia and Japan. The Saudi government’s decision to choose the energy-scarce Japan, which has been a long-time trading partner, as a collaborator in the Vision’s economic diversification, can be viewed as a manifestation of the Saudi government’s desire to achieve results as early as possible.⁹ Saudi Arabia expects the Japanese package of cooperation for investment, technology transfer, and human resource development to revitalize its economy and local industries, while the Japanese government has identified potential synergy effects on its economic growth initiative, Abenomics.¹⁰

On the other hand, some arguments have been made pointing out how the practical implementation of Abenomics may be unrealistic, especially since evaluations have been rather disappointing so far. Moreover, the complementary linkage between Abenomics and Vision 2030 has not been substantially validated yet. The possibility of establishing reciprocal relations depends on the feasibility of concrete business alignment in the future and the Japanese government has reiterated its determination to cooperate with the Saudi government in order to benefit its domestic economy. In the perspective of this new era in Saudi-Japan relations, the analysis of the 60-year bilateral relations between these two countries has never been timelier and more critical.

⁸ Ministry of Foreign Affairs of Japan, ‘Japan-Saudi Arabia Relations, Japan-Saudi Arabia Summit Meeting (March 13, 2017). Available at: https://www.mofa.go.jp/me_a/me2/sa/page4e_000589.html (accessed on March 10, 2018).

⁹ ‘Japan’s Abe, Saudi king see eye to eye on Vision 2030’, *Nikkei Asian Review*, March 13, 2017.

¹⁰ Abe, Shinzo, ‘My ‘third arrow’ will fell Japan’s economics demons’, *Financial Times*, June 30, 2014.

1.1.1 Significance of Saudi oil for the Japanese economy

Since the 1930s, oil has been the principal resource for Japan's economic growth – and especially after the Second World War (WWII). As outlined in Chapter 3, Japan's oil field development in Saudi Arabia and Kuwait dates back to 1932. The comparatively cheap oil brought from the Arabian Peninsula was a key element in shifting the main energy resource away from coal and which led the Japanese economy to expand. It comes as no surprise, then, that the Japanese manufacturing industry, which has been a robust engine of Japanese economic growth since 1945, suffered from the oil crisis in the 1970s. Japan made technical and systematic efforts to achieve diversification by acquiring and saving energy resources to make its economic growth sustainable. However, the Middle East has overwhelmed other areas as the prime supplier in the international crude oil market, explaining why more than 70% of Japanese imports of crude oil has depended on this region since the 1960s¹¹ – even peaking at 91% in 1967. True, the Ministry of Economy, Trade and Industry anticipated that the Japanese domestic demand for crude oil would gradually decrease in the second half of the 2010s (-8.4% in 2020 compared to 2015), due to a declining population, but also the expected long-term economic slowdown, coupled with advanced energy-saving technology and an increased share of electric vehicles.¹² In addition to

¹¹ Except for five years, between 1985 and 1990; see Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy, 'Japan's Energy White Paper 2011,' (especially Part 2. Energy trends, Chapter 1. Domestic energy trends, Paragraph 3. Trends in primary energy, 1. Trends in fossil energy, (1) oil) (2011). Available at: <http://www.enecho.meti.go.jp/about/whitepaper/2012html/2-1-3.html> (accessed on August 10, 2017).

¹² Ministry of Economy, Trade and Industry, 'Panel of Oil and Natural Gas, Committee

this, Japan has been drastically reviewing its energy balance following the Great East Japan Earthquake in 2011 and the following nuclear power plant accident. However, realistically speaking, the position of crude oil as the primary energy source is unlikely to weaken in the near future. The Japanese energy dependence on the Middle East, with its abundant oil reserves and relatively cheap production costs, is therefore likely to continue for decades.

In particular, liquified natural gas (LNG)'s position in relation to the Japanese energy balance has been strengthened by a trend of environmental conservation policy. The fact is that gas-thermal power generation facilities have operated as alternatives since the shutdown of nuclear power plants in Japan since the earthquake in 2011. Consequently, Japan has intensified LNG procurement by strengthening relations with the Gulf countries, especially Qatar. In addition to its role as energy supplier, the significance of Qatar for the Japanese government has been increasing as a partner for strategic dialogue in the region.¹³ This was illustrated by the official visit to Japan of the Amir of Qatar Sheikh Tamim bin Hamad Al Thani in January 2019. Although the Qatar-Japan partnership has not the historical depth and the marketability that the Saudi-Japan one has, one can expect that the former will follow similar steps towards a multi-faceted partnership in the future.

Although the energy demand and supply could be viewed as the prime bond of relations between Japan and the Middle East, it hardly explains the principle of

of Resources & Fuels' (2016). Available at: http://www.meti.go.jp/committee/sougouenergy/shigen_nenryo/sekiyu_gas/sekiyu_doukou_wg/pdf/003_s01_00.pdf (in Japanese) (accessed on August 10, 2017).

¹³ Ministry of Foreign Affairs of Japan, 'Japan-Qatar Banquet at the Prime Minister's residence' (2019). Available at: https://www.mofa.go.jp/me_a/me2/qa/page4e_000978.html (accessed on February 15, 2019).

the relationship. From an economic perspective, the Middle East is viewed by Japanese decision-makers as a promising market for Japanese manufacturing industries, superseding Chinese and Asian markets, while the Japanese domestic market is shrinking. In addition, the geographical location of the Middle East is perceived as an asset for Japanese companies who have had a business anchor in the region and have been trying to expand business opportunities from there to Africa. Seeking development of foreign markets is indispensable for the Japanese manufacturing industry.¹⁴ A conventional large-scale manufacturing industry, or a mass-production system, in which Japan once had superiority in terms of technology and domestic market volume seems obsolete. These business models are no longer relevant because there is no economic rationale to build a manufacturing hub inside the shrinking domestic market. On the other hand, the Middle Eastern market, and Saudi Arabia in particular, is experiencing its second boom in the demand for infrastructure businesses and expertise after the one in the 1970s and 1980s.¹⁵ Although the oil price has been recording low levels since 2014, the selected construction of infrastructure projects have been proceeding continuously.¹⁶ Moreover the Saudi population growth has peaked remarkably which has also brought a huge demand for power supply and water

¹⁴ Belderbos, Rene, and Leo Sleuwaegen, 'Japanese firms and the decision to invest abroad: business groups and regional core networks', *The review of Economics and Statistics* (1996), pp.214-220.

¹⁵ Hertog, Steffen, 'The GCC and Arab economic integration: a new paradigm', in *Middle East Policy* 14.1 (2007), pp.52-68 and Quandt, William B., *Saudi Arabia in the 1980s: foreign policy, security, and oil*. (Washington, D.C.: Brookings Institution Press, 2010): pp.71-73.

¹⁶ Iwama, Koichi, 'Kencho ni seicho suru Saudi Arabia no keizai to Saudi Arabia no infrastructure kaihatsu no saishin dohkoh to Nihon kigyo no jigyo kikai (Firmly growing Saudi economy, the latest trend of Saudi infrastructure development, and business opportunities for the Japanese companies)', *Japan Cooperation Centre for the Middle East (JCCME) News*, (April 2012), pp.36-47 (in Japanese).

desalination.

However, although the quality of Japanese infrastructure technology has been recognized, Japanese companies are losing competitiveness in the Saudi market in relation to the US and European countries' system design and standardization as well as financial proposals from China and South Korea. The business approach of Japanese companies towards the Arab and Middle Eastern markets in the 2000s focused on the packaging of industrial diversification and human resource development which could deepen the multi-layered bilateral relations.¹⁷ The basic and common understandings of the market of the Middle East shared by the Japanese companies could be summarized as follows: a region characterized by diversified societies and big differences in individual national incomes between countries; a strong influence of Islam and related traditions on economic and social activities; the fact that modernization as well as democratization would be key factors to stabilizing the international order; and an expectation that a rapid population growth and a huge oil money flow would be attractive business factors (island of wealth and opportunity).¹⁸ With such a framework in mind, the business actors shared the perception that the optimization of business opportunities would involve: the necessity to support these societies' modernization process; to respect their culture and tradition as well as to recognize the diversity of Islam; and to support the creation of employment and vocational training opportunities for Arab youths under the concept of dual development of human resources and economy.

¹⁷ 'The chairman's remarks, The minutes of the conference of the 30th Japan Cooperation Forum for the Middle East in Vienna in August 24-25, 2005', in *Japan Cooperation Centre for the Middle East (JCCME) archives* (September 2005) (in Japanese)

¹⁸ *Ibid.*

To summarize, the Japanese government extended a strategy of economic relations towards the Middle Eastern countries for oil to sustain domestic industries and the economy. Japanese companies were trying to approach the Saudi market with a package of economic development as well as human resource development, while they were facing tuff competition from other countries. On the other hand, the Saudi government was also seeking a foreign partner to diversify their oil-anchored industry.

1.1.2 Saudi Arabia's claimed needs for economic diversification: 'Oil for technology'

In the 1960s, the process of industrialization in Saudi Arabia was an import-substitution one. With the boom in oil revenues filling the state coffers in the 1970s, the Saudi government could initiate the modernization of its domestic infrastructure. Accordingly, the Saudi government began to diversify the industrial structure which totally depended on the revenues of oil and petrochemical products after the construction of infrastructure. An industrialization policy for encouraging the manufacturing sector was initiated in the same period. The policy of industrialization for exporting manufacturing products was subsequently prioritized in the third Five-Year Development Plan from 1980 to 1984.¹⁹

As a result of the global economy gradually shifting towards Asia during the 1980s,²⁰ the Saudi government had to make a diplomatic decision of

¹⁹ Ramady, Mohamed A., *The Saudi Arabian economy: Policies, achievements, and challenges* (New York: Springer Science & Business Media, 2010): pp.23-24.

²⁰ Fels, Enrico, *Shifting power in Asia-Pacific? The rise of China, Sino-US competition and regional middle power allegiance*. (Cham, Switzerland: Springer International Publishing, 2017): pp.513-519

diversification. Along with the Saudi government's global outlook on its political economy interests, it was understandable that Riyadh pushed forward its diplomatic initiative toward energy-thirsty booming East Asian countries, particularly Japan. The conventional special relationship with the United States was gradually diversified, while maintaining a certain extent of anchored relations in the fields of security and defence.

Concomitantly, the oil crisis in the 1970s undoubtedly revealed Japan's fragile economic structure, which was based on energy dependence on the Middle East, particularly Saudi Arabia. Subsequently, as a result of Japan's clarification of its pro-Arab policy in 1973, Saudi-Japanese relations were strengthened primarily on the basis of economic technical cooperation which led to relations of 'oil for (Japanese) technology, cooperation for (Saudi) oil'. As a result of the first oil crisis, in 1974 the Japanese government established organizations dedicated to encouraging bilateral economic and technical cooperation with Middle Eastern countries. In particular, this included the establishment of the industrial business cooperation task force organizations with Saudi Arabia (in 2007) and the UAE (in 2009). Relations with Saudi Arabia were indeed prioritized in Japan because of Riyadh's rich oil reserves. Saudi-Japanese relations evolved into a multi-layered collaboration in energy-reserving, saving, and renewal technologies, advanced vocational training programmes, and cross-cultural communications which other Asian countries could not develop. In particular, technical cooperation on energy-saving and reserving was a significant approach for Saudi industry and society in order to reduce oil consumption. Technical collaboration with the Japanese government in these fields also began in the early 2010s. This approach was critical to protecting the Saudi financial situation from the effects of a persistently

low oil price.

In the 1990s, Saudi Arabia experienced an era of low economic growth due to the oil slump. The Saudi petrochemical-anchored economic structure seriously needed to be diversified to stabilize the demographically unbalanced society, and the Saudi government defined foreign investment as well as industrial technical transfers, privatization of state-owned entities, and human resource development as simultaneous priorities.²¹

As a result of the rise of the oil price after 2004, the Saudi economy was able to recover and maintain favourable economic conditions with an expansion of governmental expenditure and an increase in private consumption. This allowed the Saudi government to remain optimistic and to overlook, despite warning signs presented in earlier research,²² the structural weaknesses of this rentier economy heavily dependent on the fluctuations of the oil price on the global market. The seriousness of those issues was progressively aggravated and remained unresolved. For example, as one of the characteristics of the Saudi economy, the governmental large-scale infrastructure projects are still substantial drivers of the Saudi economy that would impinge on Saudi companies' competitiveness by chronic dependence on state largesse. According to the Japanese companies in the Kingdom, the payment from the Saudi organizations for governmental projects and businesses is irregular and unpredictable which

²¹ Sudo, Shigeru. "Saudi Arabia no saikin no douko to kadai" (The latest trend and problems in Saudi Arabia), *Oil & Gas Review, Japan Oil, Gas and Metals National Corporation (JOGMEC)*, September (2002): pp.29-30.

²² Chatelus, Michel, 'Policies for development: Attitudes toward industry and services', in Luciani, Giacomo (ed.), *The Arab state* (London: Routledge, 1990): pp.106-107; Eifert, Benn, Alan H. Gelb, and Nils Borje Tallroth, *The political economy of fiscal policy and economic management in oil-exporting countries*, Policy Research Working paper, vol. 2899 (World Bank, Africa Regional Office, Office of the Chief Economist: 2002), p.24.

could worsen their financial cash-flow.²³ On the other hand, as a result of the process of economic reform, a high dependence on foreign consulting companies in many industrial and social (including educational) fields is notable. The process of economic and industrial diversification in the GCC states is difficult to generalize due to the impact of a range of different factors in each context; population composition, political system, social system, history, value of resources, emigration, economic scale, etc.²⁴ An ineffective (unexpected and sudden) organizational reform as well as personnel assignment and changes (dismissal) in many governmental sectors are notable.²⁵

The oil slump in 2014-2015 led Saudi decision-makers to conclude that there was a need for changing the industrial structure. The economic growth rate in 2013 decreased to 2.67% from 5.38% (in 2012) and 9.96% (in 2011).²⁶ In 2015, the decrease of oil revenues, due to the fall in the oil price, coupled with an increase in military expenditure in Yemen, resulted in a financial deficit (of SR367 billion [US\$97.8 billion], representing 15% of GDP) for the first time since 1999.²⁷ According to the International Monetary Fund (IMF)'s prediction, the budget deficit will continue if the government fails to put in place measures to ensure

²³ Matthew, Martin, 'Saudi Arabia said to delay contractor payments as oil slumps', *Bloomberg* (October 19, 2015). Classified information from the author's interviews with Japanese companies in Riyadh, Jeddah and Dammam between 2013 and 2015.

²⁴ Hvidt, Martin, 'Economic diversification in GCC countries: Past record and future trends', in *Kuwait Programme on Development, Governance and Globalisation in the Gulf States, London School of Economics (LSE) and Political Science*, Research Paper Number 27 (2013)

²⁵ The Saudi government carried out a series of administrative reforms and of its personnel in the past. The reforms in May 2016 with 49 royal decrees (No.127-175) which drastically reorganized the ministries were influential at that time.

²⁶ 'GDP Growth Data', *The World Bank* (April, 2017). Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=SA> (accessed on April 20, 2017).

²⁷ 'Saudi Arabia's 2016 fiscal budget', *Jadwa Investment 28th December, 2015*, (December 2015), pp.2-4.

industrial restructuring and diversification. It also predicted that the sovereign debt could swell over to more than 55% in proportion of GDP in 2020. As a result, the IMF anticipated that domestic bank deposits would be decreased by 12.1% in proportion of GDP by 2020, which amounts to approximately the level of a quarter in 2014.²⁸

As Chapter 4 describes in detail, Deputy Crown Prince Mohammad bin Salman officially announced an economic reform strategy, Vision 2030, focusing on challenges to diversify the chronic oil-dependent national structure on April 25, 2016, followed by a National Transformation Programme (NTP) in June of the same year. In 'Vision 2030', three pillars of reform programmes were announced: 'a vibrant society', 'a thriving economy', and 'an ambitious nation'.²⁹ Based on the assumption of the crude oil price remaining at 30 US dollars per barrel, the goals are to reduce the unemployment rate by 7% in 2030 from the current 11.6%, and to expand non-oil product exports from the current 16% in proportion of GDP to 50% by 2030.³⁰

In addition, the enforcement of Saudi Aramco's initial public offering (IPO) was officially announced as Crown Prince Muhammad bin Salman disclosed his plan of the offering by 2021. The state-owned assets including the listed profit by the IPO enforcement are expected to transfer to a newly-established governmental fund and to be applied to domestic and international asset management. It had

²⁸ Kerr, Simeon, 'IMF cuts Saudi Arabia 2016 growth forecast as oil price stays low', *Financial Times*, October 19, 2016.

²⁹ 'Governance model for achieving Saudi Arabia's Vision 2030' (August 2017). Available at: <http://vision2030.gov.sa/en/node/259> (accessed on 10 August, 2017).

³⁰ Aranca, 'Saudi Arabia's "Vision 2030" to transform its economy' (May 5, 2016). Available at: <https://www.aranca.com/knowledge-library/articles/investment-research/saudi-arabias-vision-2030-to-transform-its-economy> (accessed on 10 August, 2017).

reported that the Saudi Ministry of Finance considered funding from the international bank group including Japan to make up for a part of the national budget deficit. The borrowing financial scale was estimated to be approximately 10 billion US dollars (around 1.5% - 1.6% in proportion of GDP in 2016).³¹ However, due to unprepared procedures and the murder of Khashoggi, the Saudi government suspended IPO implementation, replacing the strategy by issuing the bonds in US Dollar and borrowings to secure funding for industrial diversification. Actually, Saudi Aramco published financial statements in April 2019 for the first time since the establishment. Prior to this publication, Saudi Aramco announced its acquisition of Saudi Basic Industries Corporation (SABIC) in March 2019 through buying up SABIC shares held by the governmental organization of Public Investment Fund (PIF). This flexible response was showing the Saudi government intention to make up for the protracted financial aggravation caused by the lower value of crude oil and to aim for diversification of financial resources.

On the other hand, as is common in other GCC states, the priority in social policy was weighted on combatting unemployment, including subsidization of the private sector's approach to vocational training and regular employment of nationals by foreign companies. However, an immediate effect of improving the unemployment situation is hardly feasible. The factors of unemployment, including a mismatch between the demand of private companies (for skilled employees) and the actual workforce, nationals' general expectation to work in the public sector, and the quality of the national education system are yet to be accomplished. For example, the Nitaqat programme, which was introduced in

³¹ Kerr, Simeon and Elaine Moore, 'Saudi Arabia takes out \$10bn in bank loans', *Financial Times*, April 20, 2016.

Saudi Arabia to secure job opportunities for Saudi nationals in the private sector and improve the unemployment problem among young people, has achieved a certain level of success.³² On the other hand, there is an indication that the programme brought a decline in labour productivity as a result of an uncomfortable matching between the required level of skills and the practical skills of national Saudis in some labour sectors. These mismatches created a fake Saudization achievement as a result.³³ More generally, the potential failure of the economic development process may cause pent-up dissatisfaction among Saudi nationals and lead to political instability and questioning of the legitimacy of the Al Sa'ud leadership.

Historically, the GCC member countries took on an important role in controlling the oil value as a principal player in the international oil trading market, while the influence of the GCC has been weakening in the context of the recent market. On the contrary, their economic situation is worsening due to the protracted low price of crude oil that is also likely to lead to economic reform because of an impending sense of crisis among the GCC governments. Before the prolonged period of low oil price, there were less incentives for the GCC governments to impel the economic structure to reshape coercively despite its necessity. However, the situation has changed. There is a financial limit to how much national employment the public sector can absorb the while population growth and

³² Peck, Jennifer R, 'Can hiring quotas work? The effect of the Nitaqat program on the Saudi private sector', *American Economic Journal: Economic Policy* 8.1 (2017), pp.316-347.

³³ Koyame-Marsh, Rita O., 'Saudization and the Nitaqat programs: overview and performance', *Journal of Accounting* 6.2 (2016): pp.36-48 and Embassy of Japan in Saudi Arabia, 'Saudi Arabia's economic trend' (August, 2015). Available at: <http://www.ksa.emb-japan.go.jp/j/economic/pdf/201508economic.pdf> (accessed on 10 August, 2017).

urbanization advance rapidly, as, for instance, seen in the capital Riyadh.³⁴

1.2 The aim of the research and methodology

1.2.1 *The aim of the research*

The literature on GCC-Asia relations has seen a substantial development recently due to the significance of oil trade in international relations, of course, but also to a geopolitical shift in the Middle East, represented by 9/11 and GCC countries' 'Look East' policy during the 2000s. The economic relations between the oil-producing Gulf monarchies and the energy-consuming Asian countries (mainly, China, Japan, South Korea and India) have been steadily developed, shifting from simple economic relations to widely ranged collaborations in energy reserving and saving technologies, infrastructure projects, and defence/security fields. To supplement these vital economic trends, recent GCC officials' diplomatic visits to Asian countries have consolidated this trend. As Tim Niblock explains, the impact of these relations on world business activities provides an undeniable dimension of the current global economy.³⁵ Despite its significant influence on the global market, the GCC-Asia relations have not been transformed into a comprehensive and organized cooperation system like the EU-GCC relations. So far, GCC and Asian countries have only concluded bilateral relations agreements.

³⁴ Khan, Ghanzanfar Ali, 'Riyadh population to cross 11m by 2020', *Arab News*, October 26, 2002.

³⁵ Niblock, Tim, 'Introduction', in Niblock, Tim (ed., with Monica Malik), *Asia-Gulf economic relations in the 21st century: The local to global transformation* (Berlin: Gerlach Press, 2013): pp.1-4.

In this key turning point in West Asia-East Asia relations affecting the global balance of power, little research has thoroughly examined Japanese-Saudi relations, except for some energy-related Japanese domestic literature and articles, particularly after the late 1990s when both countries expanded reciprocal relations through a new initiative of bilateral relations. Acknowledgement of Japan-Saudi Arabia relations as a meaningful subject has received limited attention so far despite the unique factors relating to multi-layered reciprocal relations; 1) the history of 60-year diplomatic relations including Japanese imperial - Al Sa'ud royal relations; 2) the achievement of economic development and technical cooperation with more than 60 joint venture companies established since 1975; 3) the substantial Japanese vocational contribution to Saudi society through the establishment of human resource development institutes; and 4) continuous cultural and academic exchanges.

In this context, the research question developed in this thesis is the following: What have been the distinguishing characteristics of Saudi-Japan relations between 1955 and 2018? The purpose of this research is to analyze these six decades of bilateral relationship between Saudi Arabia and Japan from 1955 onwards and to show how and why Japan-Saudi Arabia relations have shifted from a simple economy-incentive cooperation to multi-layered reciprocal relations. We will do this by evaluating four distinctive phases of relations: 1) Japan's first oil development and the 1973 oil crisis: 1955-1975; 2) Agreement on economic and technical cooperation: 1975-1990; 3) Enhancement of multi-layered reciprocal relations: 1990-2013; and 4) Japan's techno-economic diplomacy on energy and security under the second Abe administration: 2013-2018.

1.2.2 Methodology

The thesis adopts an integrative qualitative research method, relying on official archives, governmental documents, diplomatic cables, and other empirical data, such as interviews and personal observation conducted in Saudi Arabia.

The Japanese Ministry of Foreign Affairs' diplomatic cables and documents, which were accessed by the author and which had not previously been thoroughly and comprehensively analysed, have been an invaluable resource for this research. A Japanese national Information Disclosure Law, which came into effect in 2001, provided Japanese nationals with the right to formally request governmental documents, including diplomatic cables.³⁶ The retention period of these cables at the Ministry is 'five years' from the dispatching date. Therefore, these diplomatic cables are recognised as belonging to the public domain after the end of the retention period, and could be released to the author upon request (the full detail of all diplomatic cables consulted for this research is available in the bibliography section).

It is commonly recognised that the accessibility of relevant sources on the Saudi decision-making process in writing is strictly restricted. Due to restrictive policies on government data and information, it is common knowledge that official documents issued by governments of Arab countries are difficult to access by academic researchers. For this reason, in addition to Japan's diplomatic cables and more easily accessible secondary sources, a combination of personal

³⁶ Government of Japan, 'Law Concerning Access to Information Held by Administrative Organs' (14 May 1999). English translation available here: <http://www.cas.go.jp/jp/seisaku/hourei/data/AIHAO.pdf> (accessed on 3 March 2020).

interviews and ethnographic observations was adopted, particularly in the context of the post-2015 political and economic transformations taking place in Saudi Arabia.

Interviews with former ambassadors, Saudi Arabian and Japanese government officials, and company executives were conducted on a semi-structured, open-ended basis. Face-to-face interviews were preferred in order to make the participant feel more comfortable and to maximise the trust relationship established between the interviewer and the interviewees.

In order to get first-hand information and perceptions on the establishment of joint venture companies, interviews with Japanese company executives who have been directly involved in the joint venture establishment process were undertaken. A number of topics that would have been otherwise impossible to address, including the difficulties of financial negotiations and operational discussions with their Saudi partners, were discussed during these personal interviews. This key primary material was particularly key to develop an in-depth analysis of the Saudization program (discussed in Chapter 3).

In addition to interviews with two Saudi officials, interviews with Japanese former ambassadors and government officials have also provided a first-hand perspective on diplomatic discussions and communications with the Saudi royal family members as well as government officials. The breakdown of interviews is as follows:

(1) 15 interviews were undertaken with former Japanese ambassadors and diplomats (including two extraordinary and plenipotentiary ambassadors, and two chargé d'affaires to the Kingdom of Saudi Arabia), officials, engineers, and experts who had been stationed in Saudi Arabia;

(2) 39 interviews were conducted between 2013 and 2016 with Saudi-Japanese joint venture company executives;

(3) two interviews were conducted with Saudi officials between 2013 and 2016.

In addition to these interviews and the analysis of previously untapped diplomatic documents (as explained above), this research relies on personal observation conducted during the author's work assignments as a senior coordinator at a vocational training institute, the Saudi Electronics and Home Appliances Institute (SEHAI) in Riyadh (April 2011-August 2012), and as a representative at the Japan Desk / Japan Water Desk located at the Jeddah Chamber of Commerce and Industry (September 2012-July 2015).

This long-term empirical observation, drawing on personal professional experience in the kingdom, acted as an invaluable foundation for a better understanding behind the social and economic transformations taking place ever since. In particular, during the author's three years as a senior coordinator at Saudi Electronics and Home Appliances Institute (SEHAI) in Riyadh, where Saudi high-school graduates are eligible for admission, the author was able to observe and interact with Saudi Arabia's younger generation, including Shi'i students from the Eastern Province, 'Asir and Jizan. The creation of employment opportunities for young Saudis is one of the priorities of the government, as the success of the Saudization initiative is directly linked to the success of the Saudi economic and industrial diversification as well as the political legitimacy of the current leadership. The author had the opportunity to be located in three different regions (Riyadh, Jeddah and the Eastern Province), which gave him a nuanced and complex view of the situation, and is hopefully reflected in the research.

Rather than a theory-based study, this research is thus a deeply empirical one,

relying on a diachronic investigation of the 'multi-layered' Saudi Arabia-Japan relations over 60 years. In the established international relations literature, the concept of 'multi-layered diplomacy' has been developed by several authors to discuss the role played by non-central authorities in foreign policy and diplomacy – of federal states in particular.

Referring to relations between the United States and Canada, Brian Hocking showed that national policy-decision makers are increasingly constrained to coordinate with local actors and to take in account the latter's priorities when conducting the state's foreign policy.³⁷ 'Paradiplomacy,' or 'multi-layered diplomacy,' thus defines acts conducted by regional or local authorities, in parallel to the central government, with a purpose of pushing for their own interests at the international level. Through this argument, Hocking reiterated the central role played by domestic politics in the framing of foreign policy and diplomacy.

In a similar vein, Fritz Nganje discussed the role of sub-state actors, especially federated entities, in South African foreign policy. Nganje asserted that provinces play an increasingly influential international role, as they 'make foreign policy more responsive to domestic socio-economic priorities'.³⁸ Federated entities, provinces and cities tend to promote their own international economic relations in trade, investments, cooperation and partnership, which account for a significant part of contemporary cross-borders ties. He thus explained the geopolitics of sub-state regional diplomacy as alternative diplomatic practices, actors, cultures, and sites which transcend traditional state-centric modalities.³⁹

³⁷ Hocking, Brian. *Localizing foreign policy. Non-central governments and multilayered diplomacy* (London: Palgrave MacMillan, 1993), pp.8-30.

³⁸ Nganje, Fritz, 'Sub-state diplomacy and the foreign policy-development nexus in South Africa' in *South African Journal of International Affairs* 23.1 (2016), pp.1-20.

³⁹ Nganje, *op. cit.*

For obvious reasons, a straightforward application of the concept of ‘multi-layered diplomacy’, as understood by Hocking and Nganje, to our case study is not appropriate: contrary to Canada, South Africa and the United States, Japan and Saudi Arabia are unitary states, and non-central actors (i.e. Japanese prefectures and Saudi provinces) have little or no opportunity to influence their respective state’s foreign policy and to bring local and regional priorities to the centre of the diplomatic table. The term ‘multi-layered diplomacy’ will be understood here as an effort to develop, implement and maintain wide-ranging cooperation projects, concomitantly in political, economic, cultural, etc. fields. According to this approach, both parties will focus on their complementarity to meet the needs of the other side in order to increase and sustain the level of engagement on the long term and to mutually benefit from this relationship.

This term has been used by the Japanese government in several occasions to claim a wide-ranging approach to cooperation with neighbours, in particular China.⁴⁰ In particular, the Japanese government has aimed at linking science and technology to national diplomacy in line with Japan’s national interests. It has been expected to further enhance Japan’s science and technology fields by building, participating and developing international networks while cooperating with existing diplomacy, and to further utilize these networks strategically.

In relation to resource-rich countries more specifically, the Japanese government’s ‘multi-layered’ strategy consists of implementing extensive measures in various fields, such as technical cooperation, exchanges and

⁴⁰ Ministry of Foreign Affairs of Japan, ‘Speech by Prime Minister Ryutaro Hashimoto – Seeking a new foreign policy towards China’, 28 August 1997 (available here: <https://www.mofa.go.jp/region/asia-paci/china/seeking.html>).

contributions in the sectors of education and culture; business promotion for both Japanese and resource-rich countries' companies; social development for technical human resources and vocational training; technology transfer in order to increase industrial cooperation, etc. This ultimately aims at securing a stable energy supply for Japan while global competition for resource acquisition intensifies.

1.3 Saudi Arabia – East Asia relations: a literature review

Historically, Saudi Arabia's diplomatic focus has been embedded in its relations with the United States. However, the directionality was gradually remoulded or diversified towards Asia through a paradigm-change resulting from the 9/11 events and the subsequent US military campaign in Afghanistan and Iraq in the early 2000s. What was the process of foreign policy decision-making which directed Saudi Arabia to increasingly focus on the Asian countries? Was diversification of Saudi diplomacy inevitable? Despite the repeated political distrust and irritation between Saudi Arabia and the United States, the bilateral relations remained significant in terms of the Saudi national economy, particularly oil business, and security / defence policies. However, the shifting global economy forced the Saudi government to make a diplomatic choice of foreign policy diversification. As the Saudi government's political economy interests moved towards a global outlook, it was understandable that Saudi Arabia pushed forward its diplomatic initiative toward energy-thirsty and economically-developing East Asian countries. At the same time, as a self-proclaimed regional Islamic power, Saudi Arabia struggled to preserve welfare and stability in the

Islamic world.

The conventional special relationship with the United States gradually diversified while maintaining a certain degree of anchored relations. Some researchers concluded that the possibility of perceiving China as a substitute to the United States in the Middle East was rather unrealistic for the Saudi government, especially in terms of defence and security relations, but also investment. Mohammad Turki al-Sudairi, for instance, asserted that ‘it would be impudent to place China in the same category as other East Asian nations and assume an undue ‘normality’ to Sino-Saudi relations’.⁴¹ Another expert also explained that ‘China’s gradual realignment from squarely backing Iran to courting Saudi Arabia in recent years heralds a geostrategic shift in Chinese foreign policy and marks the stirrings of a Chinese “twin-pillar” policy in the Gulf.’⁴² Thus, the question is how Saudi Arabia would re-configure its foreign policy with the East Asian countries? What is the implication for the Saudi government of renewing diplomatic relations with East Asian powers?

Research and works on GCC-Asia relations, by Tim Niblock, Naser al-Tamimi, Christopher Davidson and Japanese researchers among others, are introduced and analyzed in the following section. We will first deal with the works that have studied the transformation of Gulf-Asia relations before focussing on those which have discussed Saudi-Asia relations more specifically.

⁴¹ al-Sudairi, Mohammed Turki, ‘Sino-Saudi relations: An economic history’, in *Gulf Research Centre Gulf Papers* (August 2012), pp.35.

⁴² Gresh, Geoffrey F., ‘China’s emerging twin pillar policy in the Gulf’, *Foreign Policy*, November 7, 2011. Available at: <http://foreignpolicy.com/2011/11/07/chinas-emerging-twin-pillar-policy-in-the-gulf/> (accessed on September 16, 2016).

1.3.1 Gulf-Asia relations in the literature

Tim Niblock asserts that we have been observing a transformation of Gulf-Asia developments, due to the shifting balance of the global economic environment, and concludes that 'the Gulf states are now becoming more integrated into an Asian framework than they have been in the past'.⁴³ His analysis of GCC-Asian relations focusses on the relevance that the development of GCC-Asian relations would bring to the transformation of the global economy. His question is how to understand this trend and suggests an analysis of multidirectional relations including oil supply, investment and trading between each GCC country and the Asian ones, mainly China, Japan, South Korea and India, respectively. More interestingly, he highlights the common perceived misunderstanding according to which the strengthening of GCC-Asian economic relations would lead to a degradation of the existing GCC-European or GCC-US relations, or to a shift by the Gulf monarchies and a prioritization of their relations with Asian countries. Niblock rather emphasizes that it is more effective to analyze the process and pattern of how Asian countries established proper economic-incentive relations. In the same vein, Ehteshami has studied the wide-ranging Pacific, South, and Central Asian countries' polyhedral links to the Middle East in terms of energy, arms trade, investment and trade, labour and migration, and religion in the context of post-Cold War Asian power relations. In this perspective, he has described an uneven process of 'Asianization', i.e. the building of closer networks with Asian countries through economic relations with the Middle East countries.⁴⁴

⁴³ Niblock, *op.cit.*, pp.13-25.

⁴⁴ Ehteshami, Anoushiravan, 'Asian geostrategic realities and their impact on Middle

This coincided with the United States' foreign policy beginning to shift its pivot from the Middle East to Asia in the early 2010s. In 2011, US Secretary of State Hillary Clinton argued that one of the Obama administration's most important missions in the following ten years was to increase investment in the Asia-Pacific region in terms of diplomacy, economy, and global strategy.⁴⁵ In this context, although Saudi Arabia had been the prime ally in the region for the United States, the preconditions of the relations were built on the premise of maintaining solid cooperative relations with the United States as a politically-secured energy supplier. Both the Trump administration and the Republican Party's interests, especially toward Asia, are continuously substantial in terms of trade, security and diplomacy under the 'free and open Indo-Pacific' policy,⁴⁶ however, the diplomatic shift of the United States, signifying that the Asian region is a bigger priority than the Middle East, will not be intensified in the short term. This is mainly because their (the Administration and the Party) coherent policy is not properly established yet due to different political priorities.⁴⁷

Davidson's analysis of relations between GCC countries (mainly Saudi Arabia and UAE) and Pacific Asia (mainly China, Japan and South Korea), has marked a significant new step in the literature. In particular, he has studied the transformation of bilateral relations based on oil and investment relations towards more comprehensive, complex and wide-ranging partnerships. Although he

East – Asian relations', in Carter, Hannah and Ehteshami, Anoushiravan (eds.), *The Middle East's relations with Asia and Russia* (London: RoutledgeCurzon, 2004), pp.1-18. and Ehteshami, Anoushiravan, 'Regionalization, Pan-Asian Relations, and the Middle East' in *East Asia* 32.3 (2015), pp.223-237.

⁴⁵ Clinton, Hillary, 'America's Pacific Century', *Foreign Policy*, October 11, 2011.

⁴⁶ 'Advancing a Free and Open Indo-Pacific Region', Press Release: November 2018, *U.S. Department of State* (2018). Available at <https://www.state.gov/r/pa/prs/ps/2018/11/287433.htm> (Accessed on April 29, 2019)

⁴⁷ 'Donald Trump still has no proper Asian policy', *The Economist*, September 13, 2018

argues that China-GCC relations would be at the core of the relations between these two regions, he notes that each Asian country has its own foreign policy decision-making process reflecting the relations with each country's alliances and its role in the regional and international systems.

Davidson has described the evolving GCC-Pacific Asian relations as 'a comprehensive, long-term mutual commitment', including the Gulf's military security arrangements and nuclear development cooperation'.⁴⁸ He argues that the anchor of these regional bilateral relations are to be found in the economy, contrary to what has been observed in Gulf-South Asia extended relations, which are based on security cooperation (especially with Pakistan) and labour immigration. However, the relations between Saudi Arabia and Pacific Asia have gone through a multi-layered process as the deepening economic relations have helped Saudi Arabia find a place in the international political economy. He also points out that none of the GCC or Asia Pacific countries has yet substantiated bilateral cooperation on defence and security – with the exception of Chinese military equipment sales to some Middle East countries in the 1980s. According to him, the GCC states have been trying to balance their diplomatic ties by deepening their relations with Pacific Asia countries, particularly China, in addition to the existing close foreign relations with Western countries.

Naser al-Tamimi develops a similar argument but focusses on the rising Saudi-Chinese interdependency partnership within the context of changing regional political and security dynamics. He also highlights the political implications for the

⁴⁸ Davidson, Christopher M., 'The Gulf Monarchies and Pacific Asia: Towards Interdependency?' in Lenze, Nele and Charlotte Schriwer (eds). *Converging regions: Global perspectives on Asia and the Middle East* (London: Routledge, 2014), pp.143-160.

United States of the advancement of Saudi-Chinese security relations, which is termed a 'hedging' strategy from a Saudi 'new look-East' viewpoint.⁴⁹

In this context, he explains the strengthening of China - Saudi Arabia relations through growing oil supply-demand relations and, secondly and probably more importantly, by the Saudi government's ambition to diversify its foreign policy toward Asia.⁵⁰ However, he remains sceptical about the possibility that this relationship could replace the special relations Saudi Arabia has with the United States. In this perspective, he agrees with Niblock, who argues that a disproportionate emphasis on the West-to-East diplomatic shift is risky and would need to be substantiated by more precise facts and figures. In addition, al-Tamimi points out that the Saudi-Asian relations can be described as an 'energy-economic partnership, not a military-political alliance'⁵¹, indicating a political message to the United States. At the same time, however, he recognizes that the current Saudi-Chinese relations are still at a stage of infancy. China's political objectives in the relationship with the Saudi are 'very pragmatic and closely aligned with the economic interdependence theory' in terms of energy security, energy business investment, and presence at an international arena.⁵²

Is China's new strategy towards the Gulf region one of balancing power? China has become one of the largest GCC countries' trade partner, the largest exporter to the Middle East, the biggest importer of Iranian oil, and the largest player on the Iraqi oil market.⁵³ The Saudi government recognized Taiwan as a state in

⁴⁹ al-Tamimi, Naser M., *China-Saudi Arabia relations, 1990-2012: Marriage of convenience or strategic alliance?* (Oxon: Routledge, 2013).

⁵⁰ *Ibid.*, pp.35 and 102-107.

⁵¹ *Ibid.*, p.206.

⁵² *Ibid.*, p.207.

⁵³ al-Tamimi, Naser, 'Is China pivoting to the Gulf?', *Saudi Gazette*, April 29, 2013.

1949. Saudi-Taiwanese relations were exclusively focused on economic factors. Taiwan depended on oil import from Saudi Arabia. On the other hand, economic exchanges in the field of agriculture and fishery, infrastructure projects such as highways and drainage facilities, and military-affiliated facility construction projects were encouraged. Because of uninterrupted diplomatic relations with Taiwan, Saudi Arabia was not able to conclude diplomatic relations with China, unlike other Arab countries, until 1990. However, the two countries' relations changed completely, triggered by the Tiananmen Square protests in June 1989. Amid this political turmoil, the Saudi government, without stating any official denouncement of the oppression, presented a letter of credentials to the Chinese government in August 1989. Then Saudi ambassador to the United States, Prince Bandar bin Sultan, visited Beijing in July 1990 and the two countries agreed on the establishment of diplomatic relations, while putting an end to more than 40 years of diplomatic relations with Taiwan.

The Saudi diplomatic choice was a result of much consideration of feasible relations with the globally influential China and represented a significant political turning point of Saudi diplomatic diversification toward Asia.

Conversely, China's interests in the Middle East have historically focused on business relating to energy resources, trading, infrastructure projects, and the labour market. Mohamed bin Huwaidin categorized the relations between China and the Gulf and Arabian Peninsula region into three phases: firstly, China's early involvement (1949-1970), secondly, China's pragmatic foreign policy (1971-1989), and thirdly, China's economic interests in the Gulf region (1990-1999).⁵⁴

⁵⁴ Huwaidin, Mohamed Bin, *China's relations with Arabia and the Gulf, 1949-1999* (Oxon: Routledge, 2002): p.95.

However, the Chinese government began to expand its fields of business to include collaborative relationships in larger domains such as finance, security / defence, and energy in order to play an important role in the region. Particularly, Saudi Arabia has been a pivotal partner for China in this perspective. The first signs that a Sino-Saudi relationship could bear strategic fruit came in 1988 when Saudi Arabia purchased 36 CSS-2 intermediate range ballistic missiles, and nine launchers.⁵⁵ Saudi Arabia and China have exchanged official visits since the 2000s and King 'Abd Allah's first official visit abroad was to China in January 2006, while Chinese President Hu Jintao reciprocated with a trip in April 2006. One of the reasons of these intensified visits could explain that 'many Saudi officials, annoyed with U.S. pressure to cease funding for Islamist and terrorist groups, found Beijing's no-questions-asked policies attractive'.⁵⁶

On the other hand, Chinese foreign policy in the post-Cold War period has been focussed on prioritizing economic development. In this context, it was defined, on the occasion of the 17th National Congress of the Communist Party in October 2007, as a protective political tool of Chinese nationalism, security, and economic benefit.⁵⁷ It was a decisive shift toward omnidirectional diplomacy.

The Belt and Road economic initiative has been an integrated strategy of the two different economic initiatives between the 'Silk Road Economic Belt' (China-South Asia-Eurasia-West Asia-Europe) and the '21st Century Maritime Silk Road' (China- ASEAN-Indian Ocean-Middle East-Africa). It is regarded as a new

⁵⁵ Jacobs, Joshua. 'Saudis embrace China in new polygamy', *Asia Times*, February 25, 2012. Available at: http://www.atimes.com/atimes/Middle_East/NB25Ak01.html (accessed on September 16, 2016).

⁵⁶ Pant, Harsh V. 'Saudi Arabia Woos China and India', in *The Middle East Quarterly*, (Fall 2006), pp.45-52.

⁵⁷ Carlson Allen. And Ren Xiao (eds.), *New Frontiers in China's Foreign Relations* (Maryland: Lexington Books, 2011): pp.12-15.

national strategy for foreign expansion policy under the Xi Jinping administration, financed by the newly-established financial organizations, the Asia International Investment Bank (AIIB), the New Development Bank BRICS (NDB BRICS) and the Silk Road Fund.⁵⁸ This economic initiative was announced at the 6th Ministerial-level Conference of the China-Arab States Cooperation Forum in June 2014. The initiative derived from Xi Jinping's regional cooperation strategy in 2013 which would be implemented in 3 phases; (1) strategic mobilization period: 2013-16, (2) strategic planning period: 2016-21, and (3) strategic enforcement period: 2021-49.

The new Chinese strategy has been characterized by a concentration on economic incentives in high-tech industries, particularly in the energy and infrastructure business sectors. In this context, Saudi Arabia is regarded by Beijing as one of the prime project coordinators and investors, as well as the most reliable partner for supplying energy resources.⁵⁹ China's economic relations with the Middle East are based on economic ambitions to develop the country's domestic growth, by securing the energy supply for sustainable economic development and investment expansion, by establishing its presence globally, and by expanding diplomatic ties. In 2013, China became the largest crude oil importer and it is clear that the energy resources from the Middle East and the securitization of these resources' sea-lane transportation are considered as vital for national development. The Chinese dependence on foreign energy resources is estimated to be more than 67% in 2020 (compared to 58% in 2013).⁶⁰ The

⁵⁸ Stiglitz, Joseph E. 'US and Asia's multilateralism', *Arab News*, April 14, 2015.

⁵⁹ Geoff Cutmore and Everett Rosenfeld, 'Saudi Arabia and China just hit the "next level" for strategic collaboration, Saudi CEO says', *CNBC*, March 19, 2017.

⁶⁰ The Federation of Electric Power Companies of Japan, 'China: Energy dependence rate will become 67% in 2020' (in Japanese) (December 25, 2015). Available at:

average rate of increase of Chinese crude oil import from the Middle East between 2004 and 2014 was more than 12%, which has thrusts its oil dependence rate on the Organization of Petroleum Exporting Countries (OPEC) to up to 70% in 2013.⁶¹ However, despite the fact that China's involvement in Middle East political affairs – both at the national and the regional level – is likely to increase, many observers remain sceptical about the possibility that China could become the region's great power either diplomatically or militarily in the medium term.⁶²

1.3.2 Saudi-Asian relations

Tim Niblock has analysed Saudi Arabia's political economic development process, which combines governmental initiatives of mega-projects with failures in the reform of the private sector. His analysis has highlighted the following successive phases: (1) 1962-1967, 'Laying the basis for development'; (2) 1970-1985, 'Planning for transformation'; (3) 1985-2000, 'Constrained development'; (4) 1970-2000, 'Attitudes of the business elite'; and additionally, (5) 2000-2006, 'Planning for reform'.⁶³

He asserts that, in the constrained Saudi economic development between

https://www.fepec.or.jp/library/kaigai/kaigai_topics/1253837_4115.html (accessed on October 20, 2016).

⁶¹ Anjali Raval and Robin Kwong, 'How China trimmed its Opec dependence', *Financial Times*, December 3, 2015.

⁶² Schenker, David. 'What a changing Middle East means for China?' *The Washington Institute* (July 1, 2013). Available at: <http://www.washingtoninstitute.org/policy-analysis/view/what-a-changing-middle-east-means-for-china> (accessed on August 30, 2016).

⁶³ Niblock, Tim (with Monica Malik), *The political economy of Saudi Arabia* (Oxon: Routledge, 2007): pp.32-199.

1985 and 2000, the oil revenues and government expenditures 'remained central to the Saudi economy's performance despite the government's efforts to diversify the economy. The country has remained a rentier state, albeit with a more limited resource base than before.'⁶⁴ Similarly, Hodson explained that 'the gap between public and private contributions, although it has narrowed in recent years, remains substantial. The high oil price has not marginalized the private sector as much as in the 1970s which serves as another indication of the growing strength of the private sector in the Saudi economy.'⁶⁵

Niblock's comprehensive analysis of the Saudi political economy leads him to conclude that 'the debate on economic reform in Saudi Arabia, both within the country and in international circles, has been governed too much by the limited concerns of the Washington Consensus.'⁶⁶ He also points out the need of both reforming the economy and providing a productive Saudi workforce to the labour market and of redirecting governmental finances to that end.⁶⁷ Hertog argues that the features of the Saudi economic structure show that 'the Saudi phenomenon has clearly proven to be "state corporatism." To further capture its specificity, one may perhaps call it "rentier corporatism."⁶⁸

Niblock also sequences Saudi political relations with the United States government as follows:

⁶⁴ Ibid., pp.141-142.

⁶⁵ Hodson, Nathan, 'Breaking loose: Reduced private sector dependence on governments in GCC economies', in Hertog, Steffen, Giacomo Luciani and Marc Valeri (eds.), *Business politics in the Middle East* (London: C. Hurst & Co.: 2013), p.121.

⁶⁶ Niblock, Tim, *Saudi Arabia. Power, legitimacy and survival* (Oxon and New York: Routledge: 2006): p.141.

⁶⁷ *Ibid*, p.142.

⁶⁸ Hertog, Steffen, 'The New corporatism in Saudi Arabia: Limits of formal politics' in Khalaf, Abdulhadi and Giacomo Luciani (eds.), *Constitutional reform and political participation in the Gulf*(Dubai: Gulf Research Centre: 2006), p.270.

- (1) 1979-82: Deepening the basis of the alliance with the United States following the Iranian revolution;
- (2) 1982-90: Global partnership with the United States and the Afghan struggle;
- (3) 1990-96: Restructuring the relationship following the Iraqi occupation of Kuwait;
- (4) 1996-98: Intensification of the international terrorist threat to Saudi Arabia and the United States;
- (5) 1998-2001: From the East Africa bombings to 9/11;
- (6) 2001-05: Impact of 9/11.⁶⁹

Saudi Arabia's foreign policy is intimately linked to the country's rentier structure. Gerd Nonneman has used the term 'omni-balancing foreign policy' in his analysis of the determinants of the Saudi contemporary foreign policy decision-making process. He explains that Saudi Arabia has displayed a 'relative autonomy'⁷⁰ in its decision-making, taking the example of the principle of consensus among the various centres of powers (royal family, influential tribes, bureaucrats, religious establishment) that is supposed to determine Saudi foreign policy priorities. In their edited book entitled *Saudi Arabia in the Balance* published after the 9/11 events and the 2003 invasion of Iraq, Gerd Nonneman and Paul Aarts introduced the realities of economic reform and political malaise relating to contemporary Saudi conservative attitudes in a shifting regional and global political sphere. After 9/11, as mutual prejudices and antipathies increased in Saudi Arabia and the United States, many experts on the Middle East predicted difficulties to maintain the conventional alliance relations. Some considered that

⁶⁹ Niblock, *Saudi Arabia, op. cit.*, pp.145-170.

⁷⁰ Aarts and Nonneman, *op. cit.*, p. 315.

the US government had overlooked the impending problems of Saudi domestic extremism as long as the United States could secure the energy resources, recognizing that there were relatively few specialists on Saudi issues in the United States despite an abundant range of experts on the Middle East peace process.⁷¹ In this perspective, Saudi Arabia's diplomatic diversification, aiming at securing the country's post-oil economic structure, is expected to increasingly result in Asian partnerships.⁷² The Saudi Arabia-China closer partnership is thus 'part of a broader strategy by the world largest oil exporter to tap Asian markets and extending global influence'.⁷³ Similarly, al-Tamimi anticipates that Saudi Arabia's urgent need for technical development is likely to impact Saudi-Japan relations, resulting in further value-added technical cooperation in the field of energy efficiency, energy saving and storing between the two countries – given the Saudi recognition of Japan's expertise in the field of energy-efficient economies.⁷⁴ Thus, it may seem ironic that the massive impact of the oil crisis on the Japanese economy in the 1970s led the country to put a massive effort into energy-saving technology and to develop them at a rapid speed, resulting in the establishment of technical cooperation on energy-saving with a major oil-producing country (Saudi Arabia) thirty years later.

In the context of contemporary history of the Middle East studies in Japan, the trend has been to research social humanities as well as regional studies, such as

⁷¹ Diplomatic cable dated September 19, 2004

⁷² Harrison, Martin, 'Saudi Arabia's foreign policy: relations with the superpowers', in *CMEIS Occasional Paper*, No.46 (February 1995), pp.41-43

⁷³ Mayer, Henry, 'Saudi Tighten China Energy Ties to Reduce U.S. Dependence', *Bloomberg* website, April 20, 2010 (accessed on September 16, 2016) available at <http://www.bloomberg.com/news/articles/2010-04-19/saudis-tightening-chinese-energy-ties-to-move-away-from-dependence-on-u-s->

⁷⁴ al-Tamimi, Naser M., 'Saudi Arabia and Japan: Toward a sustainable partnership', *Arab News*, March 12, 2017.

oriental history, Islamic philosophy, and particularly religious studies, rather than analysing political economy or diplomatic, security-related issues. Those scholars and researchers, represented by Toshihiko Idzutsu,⁷⁵ Yuzo Itagaki⁷⁶ and Yasushi Kosugi,⁷⁷ were trying to interpret Islam to enable a better understanding of the dynamics in Middle East politics and asserted that learning about Islam was the most important factor to knowing the region. In order to fill the conceptual gap between regional studies and social science, Kosugi argued the possibility of an interdisciplinary approach in the studies of comparative religion, political science, and international political science which were characterizing the principles of regional studies.⁷⁸ In recent Saudi Arabia studies in Japan, Hosaka particularly focussed on media and terrorism,⁷⁹ while Nakamura researched the nation-building process and its governing system, including the relevance of urbanites and tribalism in Saudi Arabia.⁸⁰ In addition, Tsujigami argued for the

⁷⁵ Idzutsu, Toshihiko, *The structure of the ethical terms in the Koran; A study in semantics* (Tokyo: Keio Institute of Philological Studies, 1959) and *God and man in the Koran. Semantics of the Koranic Weltanschauung* (Tokyo: Islamic Book Trust, 2002 (first edition in 1964)).

⁷⁶ Itagaki, Yuzo, 'Islamic studies in Japan and Japan's specific relationship with the Middle East', in *Annals of Japan Association for Middle East Studies* 17.2 (2002), pp.3-16.

⁷⁷ Kosugi, Yasushi, 'Al-Manar revisited: The "lighthouse" of the Islamic revival' in Dudoignon, Stéphane A., Hisao Komatsu, and Yasushi Kosugi, (eds.) *Intellectuals in the modern Islamic world: transmission, transformation, communication*. (Oxon: Taylor & Francis, 2006): pp.21-57.

⁷⁸ Kosugi, Yasushi, 'Islam seito wo meguru kenkyuu-shiza to Houhouron teki kadai – Hikaku seiji gaku to chiiki kenkyuu no kousa suru chiten de (Methodological perspectives and research issues in the study of Islamic political parties: At the junction of comparative politics and area studies)', in *University of Kyoto, Asian and African area studies*, 1 (March 2001), pp.231-250.

⁷⁹ Hosaka, Shuji, 'Media strategies of radical Jihadist organizations: A case study of non-Somali media of al-Shabaab', in *Kyoto Bulletin of Islamic Area Studies*, 5-1&2 (February 2012), pp.3-25.

⁸⁰ Nakamura, Satoru, 'Dai 5 sho Saudi Arabia oukoku no kokumin no identity no seiritu: Katei to tokusei (The establishment of identity of the people of the Kingdom of Saudi Arabia)', in *The Japan Institute of International Affairs, Contract Research with Ministry of Foreign Affairs, Japan, 'Synthetic Research on Saudi Arabia'* (March 2001), pp.81-124.

importance of gender issues in terms of the role of Saudi women within society⁸¹ and Okakura researched the contemporary history of Saudi Arabia.⁸² In addition, Fukuda analyzed Islam and political power struggles in Saudi Arabia, the structure of power balance in the al-Sa'ud family, and Islamic banking and economy in Saudi Arabia.⁸³

Miyagi, as a leading scholar in the field of Japanese security in the Middle East, researched Japan's realist foreign policy and diplomatic choice which strives for long term national interests. She concluded that Japanese foreign policy after the Second World War had evolved in terms of the balance between the US alliance and the regional diplomacy, while it substantially trended toward the US ally after the Cold War era. The establishment of NATO in 1949 and the US-Japan Security Treaty in May 1951 were a part of the USSR containment policy, while anti-communism policy was disseminated internationally in the 1950s. The basic concept of realism international theory, primarily founded by Morgenthau, practically politicized by Kennan and Dulles, and comprehensively theorized by Kissinger, Arnold Wolffer, and Albert Wohlstetter, brought a significant influence on Japan's foreign policy.⁸⁴ Japanese realism-theory supporters championed the US-Japan Security Treaty system and the nuclear deterrence theory, and affirmatively led a balance of power policy of the capitalism countries against the

⁸¹ Tsujigami, Namie, 'Stealth revolution: Saudi women's ongoing social battles' in Khamis, Sahar and Amel Mili (eds.), *Arab women's activism and socio-political transformation*. (Cham: Palgrave Macmillan, 2018): pp.149-166.

⁸² Okakura, Tetsushi. *Saudi Arabia Kindai shi (Modern history of Saudi Arabia)*. (Tokyo: Bungei Shujuu, 2000): pp.7-22.

⁸³ Fukuda, Sadashi, 'Abdullah kokuou touchi-ka no Saudi kenryoku kouzou no henka - 2015 nen ichi-gatsu no Salman kokuou sokui gono ugokiwo fukumete (The change of ruling regime under King 'Abd Allah in Saudi Arabia and additional remarks on recent changes under the newly enthroned King Salman)', in *The Middle East Review 2* (March 2015), pp.65-79.

⁸⁴ *Ibid*, p.68.

communist countries' expansionism. Then, the realism foreign policy became Japan's fundamental concept of diplomacy which led to 'the Yoshida (then the Prime Minister) doctrine' to devote Japan to economic and trading activities and spend public funds on armaments under the umbrella of the US-Japan Security Treaty.⁸⁵

Concerning Japanese foreign policy toward the Middle East, Miyagi proposed to carry out a Japanese diplomatic initiative which had a clear distinction from the Western Middle East foreign policy. She also proposed that the Japanese government's diplomatic approach should focus on a more balanced foreign policy toward the Middle East, effectively utilizing Japanese original and liberal software based on a wide range of cultural concepts. This was significantly encouraged because the region was viewed as beneficial for Japan in terms of energy supply as well as a potential business market.⁸⁶ Miyagi's insight on Japan's multi-layered relations with the Gulf oil producing countries was also directed at Japanese imperial-Saudi royal relations, concluding that 'the Japanese government has exploited the diplomatic advantage of having a monarchy to promote dealings with Gulf monarchies'.⁸⁷

Thus, while it appears clearly that the research on Asia-Middle East relations has gradually developed since the 1980s, when industrialization in Asia and

⁸⁵ Tamaki, Nobuhiko, 'Doumei gainen saiko – Yureugoku kokusai josei to Nichi-bei domei (Rethinking the concept of alliance – The unstable international situation and Japan-US alliance)', in *Kanagawa University, Centre for Asian Studies, Bulletin Papers*, 3 (2016), pp.82-97.

⁸⁶ Miyagi, Yukiko, 'Japan and the Middle East after the Arab Spring', in *IDE ME Review* 1 (February 2014), pp.143-160.

⁸⁷ Miyagi, Yukiko in collaboration with Yoshikazu Kobayashi, Akiko Yoshioka, and Koji Horinuki, 'Japan's engagement on the Gulf,' in Niblock, Tim (with Monica Malik) (eds.), *Asia-Gulf economic relations in the 21st century: The local to global transformation* (Berlin: Gerlach Press, 2013): pp.321-324.

subsequent oil demand from this region started to rise, academic studies on this topic, by many aspects, have remained limited. Although Japan was ahead of its neighbours in term of industrialization, academic research on the Middle East, including in the fields of diplomacy and foreign relations, political economy and sociology have remained scarce in Japan. Conversely, the oil-producing countries in the Middle East began to have a full-scale interest in Asian countries only as a result of the increased oil demand caused by industrialization in Japan, Korea, China, and other countries of the region. In other words, oil-producing states' interest in Asia emerged when the countries of that region began to be viewed as potential oil importers. However, except al-Tamimi's work on Saudi-Chinese bilateral relations, this has not materialized into academic studies there.

Unlike Japanese researchers on the Middle East who have so far focussed on broader issues such as Islam, security/defence, gender, and nation-building, without privileging one particular country, this dissertation primarily focuses on Saudi-Japanese economic relations. This dissertation has no theoretical ambition but instead deliberately adopts an empirical approach. It is the first work, to the best of our knowledge, to provide a thorough investigation of the 60 years of Saudi-Japanese political and economic relations and of the Japanese government's strategies and actual policies to encourage cooperation with Saudi Arabia. It does so by presenting concrete examples of economic exchanges and processes, including the Saudi–Japanese joint venture companies since 1975, the three Japanese-style vocational training institutes established in Saudi Arabia, the cooperation mechanisms on energy saving technology, and the more recent cooperation on Saudi-Japan Vision 2030. The description and analysis of these specific cases, benefiting from the author's personal experience, observations

and access to diplomatic documents while he was officially positioned in Saudi Arabia and from personal interviews conducted with both governmental officials and private company executives, arguably fills a significant gap in the literature.

1.4 Structure of the dissertation: Four distinctive phases of bilateral relations

Chapter Two of this dissertation will cover the first two phases of the development of bilateral Saudi-Japanese relations (1955-1975 and 1975-1990). The initial 20-year period since the establishment of diplomatic relations in 1955 was marked by the first Japanese oil development in the Middle East. Oil was regarded as the most important source for Japanese economic development after the end of the Second World War in 1945. It is not an exaggeration to say that the securing of energy has been a principal lifeline of the Japanese manufacturing industry and economy. The Arabian Oil Company (AOC), Japan's first original oil development company in the Middle East, was, in a sense, an essential bridge between the two countries and the symbol of prominent reciprocal relations throughout the bilateral history. During the two decades following 1955, Saudi Arabia was, as described by Tim Niblock, 'laying the basis for development (1962-1970)' and 'planning for transformation (1970-1985)'.⁸⁸ Saudi Arabia tried to implement national reforms focused on industrial diversification. In the initial stage of reform, Japan contributed by offering joint venture business formation in relation to infrastructural, administrative, and industrial development. The oil crisis in 1973

⁸⁸ Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.52-54 and pp.94-99.

caused a critical blow to the Japanese economy. It reaffirmed the difficulty of oil diplomacy for the Japanese policymakers and exposed Japan's fragile economic structure. It led the Japanese government to intensify its diplomatic emphasis on relations with the Middle Eastern countries.

This chapter shows that Japanese – Saudi relations greatly advanced following Japan's choice to implement a pro-Arab Middle East policy after the oil crisis. The conclusion of the Agreement on Economic Technical Cooperation in 1975 laid the foundation for the second phase of economic bilateral relations. Economic relations, including the establishment of joint venture businesses between private companies, were considerably accelerated, focussing on the manufacture of steel tubes, methanol, polyethylene, air-conditioners, elevators, escalators, and telecommunications equipment. On the other hand, judging from the Saudi strategy for economic development, the conclusion of the economic technical cooperation agreement with Japan was one of several of the Saudi initiatives on foreign economic cooperation led by the Saudi Arabia General Investment Authority (SAGIA) in the 1970s. The period between 1970 and 1985 was referred to by Tim Niblock as a period of 'planning for transformation' in which the Saudi government practically initiated a national development program and introduced foreign capitals and technologies.⁸⁹

Chapter 3 is dedicated to the phase of enhancement of bilateral relations (1990-2013). Due to regional instability and low oil prices, no large-scale joint venture projects were realized in the 1990s. However, an economic framework capable of shaping advanced economic relations was created through two

⁸⁹ *Ibid.*

different official agreements. The first one was the Comprehensive Partnership towards the 21st Century (1997) and the other was the Japan-Saudi Arabia Joint Agenda (1998). Additionally, the first meeting of the Japan-Saudi Arabia Business Council for private companies was also initiated in Riyadh in 1999. In the 2000s, the Saudi government increasingly looked for economic cooperation and technology transfer from abroad to accelerate industrial diversification, to create job opportunities for youths, and to maintain social order and security in order to sustain the Saudi political power. These were the background factors explaining why Japanese and Saudi Arabian relations became multi-layered, with an expansion of joint venture business activities, the exchanges of high-ranked officials, and the dispatch of Japanese experts and engineers to the Saudi government (ministries, vocational training authority, and investment authority etc.). More than 20 joint venture companies in the manufacturing sector were established during this decade, and three Japanese-style vocational and training institutes in the fields of car maintenance, plastic fabrication, and electronics and home appliances were established in Jeddah and Riyadh. This third phase (1990-2013) clearly showed that relations between the two countries were undergoing a peak of expansion. During Crown Prince Sultan's visit to Tokyo in 2006, the Joint Statement towards the Building of Strategic and Multi-layered Partnership between Japan and the Kingdom of Saudi Arabia as an official document was signed. Meanwhile, the Middle Eastern market remained highly attractive in terms of business potentiality for Japanese companies. It could function as a business foothold to the potential African market in the future. The Japanese government implemented a business strategy of integrated public-private sectors to cope with this situation.

Finally, Chapter 4 discusses the fourth phase, coinciding with the second Shinzo Abe administration and characterized by the intensity of cooperation in the fields of energy-saving technology, security and defence. Two major factors impacted on bilateral relations between Japan and Saudi Arabia during this phase, which are the Arab Uprisings and the Great East Japan Earthquake that occurred in March 2011, which fundamentally changed Japanese energy balance policy on the mid- to long-term. Japanese - Saudi joint venture businesses evolved in the sectors of value-added manufacturing industries, especially engineering work for the maintenance of technical services, for life-extension and effective utilization of the existing facilities and multi-industrial insurance services. Furthermore, cooperation on both energy-saving and security relations advanced in this period. As for energy-saving technology cooperation, looking at how the Japanese government had carried out the development of full-scale energy saving and storage technology and institutional system design worldwide, the Saudi government requested Japanese cooperation to bring those technologies into the Kingdom. In the fields of foreign defence and security relations, Japan experienced an unprecedented turning point in the defence industry in 2015, through the legislation of security-related bills. This enabled the Japanese Self-Defence Forces (SDF) to take on an active international role in the Middle East and other regions within the strict conditions of the legal framework. Chapter 4 also shows that post-2015 bilateral relations consolidated political and economic cooperation, as illustrated by the Saudi-Japan Vision 2030 agreement in 2016 which included ambitions to build a new strategic partnership for the next few decades.

Chapter 2: Diplomacy for oil, Oil for development, 1955 – 1990

In 2015, Saudi Arabia and Japan celebrated the 60th anniversary of the establishment of diplomatic relations which have manifested, since 1955, through the establishment of joint venture companies, sustained cooperation in social development, and more significantly, Saudi royal – Japanese imperial relations. The value-laden bilateral relations became increasingly salient in terms of not only energy security but also industrial diversification during the period of cheap oil between 1986 and 2000.

It might be argued that the two countries' relations originated in the dealings of oil supply and demand in a transitional period of energy shift (from coal to oil) in Japan after World War Two (WWII).⁹⁰ However, the Hajj pilgrimage by Japanese Muslims at the very beginning of the twentieth century and a following series of communications between Japanese and non-Japanese Muslims in Japan related to the establishment of an Islamic mosque in Japan in the 1930s marked the first communications between the two countries. This fact remarkably contributed to a steady establishment of diplomatic relations. On the other hand, the oil supply and demand relations remained vital elements for both countries. It is not an exaggeration to say that the securing of energy has been a principal lifeline of Japanese industry and economy which has remained largely unchanged until the present day.⁹¹ The Arabian Oil Company (AOC), Japan's first oil development

⁹⁰ Ikeo, Aiko, 'Nihon no Energy Seisaku Shiso – Gijutsu shimpo, Kaseki nenryo, and Denryoku kyoukyuu (Thoughts on Japanese Energy – Technical Progress, Fossil Fuel, and Power Supply)', in *Waseda Shogaku (Waseda Commerce)*, Waseda University, Dept. of Commerce, No.438 (2013), pp.559-562 (in Japanese).

⁹¹ Ministry of Economy, Trade and Industry, Agency for Natural Resources and Energy, 'Cabinet Decision on the New Strategic Energy Plan' (April 11, 2014). Available at: http://www.meti.go.jp/english/press/2014/0411_02.html (accessed on December 16, 2015).

company in the Middle East, was, in a sense, an essential bridge between the two countries. Through this national joint venture project with Saudi Arabia, the Japanese government and AOC gained experiences of negotiations with their Saudi counterparts. Even if it had a regrettable ending, the project encountered notable successes during its 40-year operational period since 1960.

This chapter examines how AOC served as 'an essential bridge' between the two countries and describes details of Japan's so-called pro-Arab policy during the 1973 oil crisis,⁹² which shaped Japan's broader Middle East foreign policy significantly. This chapter also provides details of the agreement on economic and technical cooperation reached in 1975, which opened the door to bilateral collaboration in setting up mutual economic development and technical transfer and the establishment of joint venture companies in various industrial fields. These business approaches were momentous projects which brought substantial benefits for Saudi Arabia. During the two decades between 1955 and 1975, Saudi Arabia experienced significant economic development described by Tim Niblock as 'laying the basis for development (1962-1970)' and 'planning for transformation (1970-1985)' phases.⁹³ Niblock pointed out that Saudi Arabia tried to conduct national reform of industrial diversification in this period. In this initial stage of reform, Japan contributed to it by offering joint venture business formation in relation to infrastructural, administrative, and industrial developments,

⁹² Ikeda, Akifumi, 'Sekiyu kiki to Chuto gaiko no 'tenkan' (Oil crisis and 'conversion' of the Middle East foreign policy)', in *Kokusai Mondai (International Affairs), The Japan Institute of International Affairs*, No.638 (2015), pp.16-25 (in Japanese). Ikeda argues that Japanese diplomacy towards the Middle East in the 1970s was kept balanced according to the 'economically high-profile, politically low-profile' principle, thus preserving the US alliance and securing energy supply despite the Japanese pro-Arab policy in 1973.

⁹³ Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.52-54 and pp.94-99.

which, as mentioned above, materialized in the conclusion of the 1975 governmental agreement on economic technical development cooperation for the enhancement of pivotal economic relations.

This chapter, as well as Chapter 4, occupies an important role in this thesis by shedding light on the historical bases of economic reciprocal relations between the two countries. In this period, the Saudi government was positively introducing technical cooperation from abroad, while Japan tried to pursue multi-resources of energy security with the Middle Eastern countries. Although the conclusion of technical economic cooperation with Japan was one of Saudi Arabia's diplomatic choices for bilateral relations, it was regarded as a successful model which later developed into multi-layered relations in the 1990s.

2.1 The establishment of diplomatic relations

2.1.1 The establishment of the Saudi Ministry of Foreign Affairs

In Saudi Arabia, the governmental institution tasked with implementing foreign policy was established in 1926 under the name of General Directorate for Foreign Affairs in the Kingdoms of Hijaz and Najd. According to the Saudi Ministry of Foreign Affairs' chronological record, it was based in Mecca and an eminent Iraqi figure, 'Abd Allah Al-Damluji was appointed as the first Director General. He later returned to Baghdad and became the first Foreign Minister of Iraq in 1930. This appointment corresponds to Okakura's assertion that the governmental posts in Hijaz were assigned to influential, as well as intellectual, foreigners to avoid

unnecessary tribal, political and commercial conflicts.⁹⁴

The General Directorate was renamed Ministry of Foreign Affairs (MOFA) by royal decree in 1930, just four years after the unification of the two kingdoms of Hijaz and Najd and two years before the official establishment of the Kingdom of Saudi Arabia by King 'Abd al-'Aziz al-Sa'ud (Ibn Saud). It was the first ministry to be announced by the first King 'Abd al-'Aziz's government. The first Foreign Minister of the new Kingdom was Prince Faisal bin 'Abd al-'Aziz (who would later become the third King). The royal members of the house of al-Faisal had been influential in the field of foreign affairs and education. During King Faisal's reign (1964-75), Saudi Arabia 'became an absolute monarchy where the king, although assisted by a newly emerging class of bureaucratic and technocrats, was supreme commander.'⁹⁵ Prince Sa'ud al-Faisal was the longest-serving foreign minister for 40 years since 1975. The mandates of the kings and foreign ministers can be summarized as follows:

⁹⁴ Okakura, Tetsushi, *Saudi Arabi Gendai-shi (A modern history of Saudi Arabia)* (Tokyo: Bungei Shunjuu, 2000): p.89 (in Japanese).

⁹⁵ al-Rasheed, Madawi, 'Introduction: an assessment of Saudi political, religious and media expansion' in Madawi al-Rasheed (ed.), *Kingdom without borders: Saudi political, religious and media expansion* (London: Hurst and Co., 2008): pp.10-11.

Table 1 List of Saudi Kings and Foreign Ministers

Name of Kings	Name of Foreign Ministers
1st King 'Abd al-'Aziz (1902-53)	Prince Faisal (1930-60)
2nd King Sa'ud (1953-64)	Ibrahim bin 'Abd Allah Al-Suwaiyel (1960-62)
3rd King Faisal (1964-75)	King Faisal (1962-75)
4th King Khaled (1975-82)	Prince Sa'ud bin Faisal (1975-2015)
5th King Fahd (1982-2005)	Prince Sa'ud bin Faisal
6th King 'Abd Allah (2005-15)	Prince Sa'ud bin Faisal
7th King Salman (2015-current)	Prince Sa'ud bin Faisal 'Adel al-Jubeil (2015-2018) Ibrahim Al-Assaf (2018-)

Korany explains that the 'matrix of Saudi foreign policy – the elements shaping Saudi international orientation and behaviour – is closely relate to the Saudi pattern of state-formation, its geopolitical context, the personal characteristics of its leaders and the dialectics of its state-society relations.'⁹⁶ The decision-making process in modern Saudi foreign policy was characterized by the combination of conventional and historical Islamic values and modern behavioural patterns of custom, value, and model.

The kingdom's policy during the earlier nation-building process was oriented

⁹⁶ Korany, Bahgat, '10. Defending the Faith amid Change: The Foreign Policy of Saudi Arabia' in Korany, Bahgat, and Ali E. Dessouki (eds.), *The Foreign Policies of Arab States – The Challenge of Change* – (Colorado and Oxford: Westview Press, Inc.: 1991), pp.347-348.

towards domestic issues rather than regional and international issues.⁹⁷ Saudi diplomatic missions abroad in 1936 were limited to three embassies (in London, Baghdad and Cairo) and two consulates (in Bern and Damascus). King 'Abd al-'Aziz prioritized domestic stabilization, particularly tribal settlements and nation-building, and his foreign policy in the 1940s reflected it.⁹⁸ Saudi diplomatic outlook and interest gradually spread out globally from a regional tribal marquisate in the Arabian Peninsula to a powerful oil-producing and influential country. Gause analyzed the Gulf countries' internal factors of political decision, including Islam, tribalism, oil, domestic balancing politics, and participation as well as representation, explaining 'there are problems with each element of the security strategy of the Gulf monarchies. Self-reliance is politically difficult and militarily ineffective'.⁹⁹ As a result, Saudi Arabia has traditionally sought a stronger alliance and a collaborative relationship against potential enemies in the region. Each king's foreign policy will be analyzed in more details in due time.

2.1.2 The first communication: Japanese Muslims' Hajj pilgrimage in 1909

Early records of Japanese relations with the Arabian Peninsula date back to the Hajj pilgrimage performed by Japanese Muslims in the 1900s. In December 1909, an Islamic-Jewish studies scholar, Kotaro Omar Yamaoka, guided by a Tatar Muslim born in Russia, 'Abd al-Rashid Ibrahim, was the first Japanese Muslim to

⁹⁷ Quandt, *op. cit.*, pp.3-4.

⁹⁸ Sullivan, Robert R., 'Saudi Arabia in international politics', in *The Review of Politics*, Volume 32, Issue 04 (October 1970), pp.436-460.

⁹⁹ Gause, III, F. Gregory, *Oil monarchies. Domestic and security challenges in the Arab Gulf states* (New York: Council on Foreign Relations Press: 1994), p.144.

successfully perform his Hajj pilgrimage.¹⁰⁰ A Russian-speaker, Yamaoka was reckoned to be engaged in a form of intelligence service which collected information on Islam during that period.¹⁰¹



Japanese Muslim 'Omar' Yamaoka 1880-1959

Source: Archives of the Royal Embassy of Saudi Arabia in Japan

The knowledge related to Islam was brought to Japan during the Nara era (710-794) through Japanese envoys to the Tang Dynasty in China. In the Kamakura era (1185-1333), Japanese Buddhist priests who were staying in China had contacts with Tajik Muslims there.¹⁰² In addition, the knowledge of Islam through Chinese literatures was introduced into Japan in the middle of the Edo era (1603-1868). Then, early in the Meiji era (1868-1912), Kowashi Inoue, a viscount as well

¹⁰⁰ Saitoh, Abdul Karim, 'The historical journey of Islam eastward and the Muslim community in Japan today', in *Journal Institute of Muslim Minority Affairs* 1.1 (1979), pp.117-126. Moï, Awang Hasmadi Awang, 'Some issues affecting Muslims in Japan' in *Area Studies, University of Tsukuba* 20 213-240 (2002), pp.220-224. and The Royal Embassy of Saudi Arabia in Tokyo, 'Kingdom of Saudi Arabia and Japan, The 50th Anniversary of diplomatic relations, The beginning of exchanges and the establishment of the diplomatic relations, (1) Pilgrimage to Makkah y Japanese Muslims,' (2005). Available at: <http://www.saudiembassy.or.jp/50years/3.htm> (accessed on December 10, 2015).

¹⁰¹ Worringer, Renée, *Ottomans imagining Japan: East, Middle East, and non-Western modernity at the turn of the twentieth century* (New York: Palgrave Macmillan, 2014): pp.72-73.

¹⁰² Yasuhiro, Yokkaichi, 'Chinese and Muslim diasporas and the Indian Ocean trade network under Mongol hegemony' in *The East Asian Mediterranean: Maritime Crossroads of Culture, Commerce and Human Migration* 6 (2008), pp.73-74.

as a Minister of Education, published a book entitled Muhammad ron (Theory of Prophet Muhammad) in 1885,¹⁰³ and Tadasu Hayashi, earl as well as the first Ambassador to the UK, translated in 1876 Humphrey Prideaux's book, *The true nature of imposture fully displayed in the life of Mahomet* (1697).¹⁰⁴ Mori, a Japanese Islamic researcher, pointed out that Hayashi was aware of Prideaux's biased description of Prophet Muhammad, however, there were not enough materials to correct its description appropriately at that time in Japan. Mori described that even these Japanese intellectuals could hardly understand basic Islam in the 1880s due to limited direct access to it and the influence of European thinking on Islam.¹⁰⁵

Detailed research on political, social, and legislative systems in Middle Eastern countries under European colonialism was introduced in Japan between the 1910s and the 1920s through scholars such as Shumei Okawa.¹⁰⁶ However, the purpose of the research was not purely to study Islamic law nor philosophy, but also to investigate practical procedures of treaty revisions, consular jurisdiction systems, and treaties on commerce. Japan's interest in Islam was to acquire knowledge as to how European countries governed the Middle East, in relation

¹⁰³ Mori, Nobuo, 'Kindai Nihon no Islam kan (Modern Japanese views on Islam)' *Shariah Research Institute* Vo.11 (June 2013), pp.6-7 (in Japanese).

¹⁰⁴ Hayashi, Tadasu, *Mahometto den (Life of Prophet Muhammad)* (Tokyo: Higashi Kan-ichi, 1876) (in Japanese).

¹⁰⁵ Mori, *op.cit.*, pp.6-7.

¹⁰⁶ Okawa, a Japanese philosopher as well as a Qur'an translator, contributed many journals and articles on Islam and Qur'an in the 1910s, including 'Nanyo (Southern sea) and Islam (Southern sea and Islam)' and 'Muslims from viewpoint of colonial policy' (both in Japanese). Okawa, Shumei, 'Nanyo to Kaikyō (Southern sea and Islam)' *Nanyo Kyōkai Kaihō (Southern sea Association Bulletin)* Vol.3 No.8 (August 1917), pp.21-30 (in Japanese). Okawa, Shumei, 'Shokumin seisaku yori mitaru Kaikyō-to (Muslims from viewpoint of colonial policy)' *Nanyo Kyōkai Kaihō (Southern sea Association Bulletin)* Vol.3 No.11-12 (November-December 1917), pp.26-37 (in Japanese)

to Japan's territorial ambition of colonizing neighbouring Asian countries.¹⁰⁷

In 1867, Japan experienced the social revolutionary Meiji Restoration. A comprehensive regime change from the Edo Shogunate period (the Japanese feudal government headed by the Shogun), it had a wide range impact on central and local government structures, the economy and the society.¹⁰⁸ In foreign relations, it prioritized the establishment of diplomatic relations with Western governments in order to obtain knowledge of modern Western technologies as well as social systems and philosophy.¹⁰⁹ The government encouraged the gathering of foreign intelligence by dispatching foreign missions and exchange students in the 1870s. Japan was beginning to claim international ambitions, as illustrated by the conclusion of the Anglo-Japanese Alliance in 1902 and the breaking out of the Sino-Japanese War in 1894 and the Russo-Japanese War in 1905.

An expert in Chinese thought, Ippei Tanaka converted to Islam in China and carried out Hajj pilgrimages in July 1924 and March 1933. The first Hajj pilgrimage performer, Yamaoka, published travelogue books, 'Sekai no Shimpi Kyo, Arabia Judan ki' (*Across the Arabia, the World's Mystery*) in 1912¹¹⁰ and 'Kaikai-kyo no Shimpiteki iriyoku' (*Mysterious Power of Islam*) in 1921.¹¹¹ In addition, Tanaka wrote another pilgrimage travelogue book, 'Islam Junrei - Haku-un yuu ki' (*Islamic*

¹⁰⁷ Myers, Ramon Hawley, and Mark R. Peattie, *The Japanese colonial empire, 1895-1945* (New Jersey: Princeton University Press, 1984): pp.80-86.

¹⁰⁸ Sakata, Yoshio, and John Whitney Hall, 'The Motivation of political leadership in the Meiji Restoration', in *The Journal of Asian Studies* 16.01 (1956), pp.31-50.

¹⁰⁹ Beasley, William, *The Meiji Restoration* (California: Stanford University Press, 1972): pp.405-411.

¹¹⁰ Yamaoka, Kotaro, *Sekai no Shimpi Kyo, Arabia Judan ki (Across the Arabia, the World's Mystery)* (Tokyo: Toado shobo, 1912).

¹¹¹ Yamaoka, Kotaro, *Kaikai-kyo no Shimpiteki iriyoku (Mysterious Power of Islam)* (Tokyo: Shinko sha, 1921).

pilgrimage - Journey on the White Cloud) in 1925.¹¹² Then, several Japanese Muslims successfully conducted Hajj pilgrimage between 1935 and 1939. Research related to East-West Asian diplomatic relations, but also Islamic history and Middle East languages, were encouraged by the Japanese authorities during this period.

The first mosque was built in the commercial city of Kobe in 1935, followed by the Tokyo mosque in 1938 mainly funded by immigrant Kazan Turks, who were mainly scholars and merchants, to Japan.¹¹³ That year, the Institute of Islamic Area Studies and the Committee for Islamic and Jewish Affairs in the Ministry of Foreign Affairs were established. The Committee's objective was to formulate the Japanese policy toward Muslims and Jews in occupied Manchuria, Inner and Outer Mongolia and even Central Asia.¹¹⁴ Many diplomats from Islamic countries attended the inauguration ceremony of the Tokyo mosque.¹¹⁵ A chargé d'affaires at the Royal Embassy of Saudi Arabia to the UK, Hafiz Wahba, represented Saudi Arabia and attended the ceremony. This was the first official trip to Japan by a Saudi government representative.

In addition, Prince Sayf al-Islam al-Hussein bin Yahya, the third son of the King

¹¹² Tanaka, Ippei, *Islamic Junrei - Haku-un yuu ki (Islamic pilgrimage - Journey on the White Cloud)* (Tokyo: Rekika shoin, 1925)>

¹¹³ Tokyo Camii & Turkish Cultural Centre, 'Our history' (2017). Available at: <https://tokyocamii.org/about/tokyo-camii-history/> (accessed on April 10, 2017).

¹¹⁴ Usuki, Akira, 'Translating al-Qur'an into Japanese: A case of OKAWA Shumei (1886-1957)', *Presentation at Symposium entitled 'The Idea of Pan-Islamism in Japan in the early 20th century'* (University of Tokyo, September 6, 2017) (in Japanese).

¹¹⁵ The Tokyo mosque was closed due to architectural deterioration in 1983. The construction of the new mosque, under the leadership of the Turkish government, began in 1998 and was completed in 2000. On the other hand, the Saudi government built the Arab Islamic Institute in Tokyo (officially registered as 'Imam Muhammad ibn Saud Islamic University Branch') as an academic research institute of Islam in 1982 (see section 2.3.3). Sequentially, the Saudi-financed al-Tawhid Mosque Hachioji, which belongs to the Saudi embassy too, was built in the Western part of Tokyo in 2002.

of Yemen Imam Yahya Muhammad Hamid al-Din (r.1918-48), visited Japan on behalf of his father in May 1938.¹¹⁶ Although there were no basic or bilateral treaty relations between Japan and Yemen at that time, the Japanese government officially received Prince Sayf and his delegation as governmental honoured guests, since Japan was looking to improve bilateral relations with the Arab world.¹¹⁷

2.1.3 The first Japanese official delegation to the kingdom in 1939

In March 1939 the Japanese government dispatched to Saudi Arabia Mr. Masayuki Yokoyama, a chargé d'affaires at the Embassy to Egypt, in exchange of Mr. Wahba's official visit to Japan a few months before. Yokoyama and his delegation were granted an audience with King 'Abd al-'Aziz Al Sa'ud, and discussed the issues of a friendship treaty, diplomatic relations, and economy. However, the negotiations for establishing diplomatic relations were interrupted by the outbreak of World War II.

Engineer Tomoyoshi Mitsuchi was a member of Yokoyama's mission to Saudi Arabia in April 1939. He was a specialist of geological engineering and belonged to the then Ministry of Commerce and Industry. The delegation's secret important mission was to look into the possibility of taking part in oil exploitation in Saudi Arabia. The kingdom was concerned that the rights of oil field development were

¹¹⁶ Embassy of The Republic of Yemen in Japan, 'Background and historical exchanges. Yemen-Japan relations' (December 2013). Available at: <http://www.yemen.jp/relation.php> (accessed on April 10, 2018).

¹¹⁷ Ministry of Foreign Affairs of Japan, 'Diplomatic archives. Questions and Answers' (in Japanese) (2014). Available at: http://www.mofa.go.jp/mofaj/annai/honsho/shiryō/qa/senzen_03.html (accessed on December 12, 2015).

being monopolized by US companies, and, therefore, tried to bring competitive mechanisms into the domestic oil development market by suggesting that Japan would participate in the possible development of three new oil fields: the eastern inland al-Dahna desert area, the south-eastern desert area Wadi Sirhan and the Saudi-Kuwaiti neutral zone.¹¹⁸ However, the Japanese delegation was forced to abandon negotiations due to unidentified and potential risks associated with such a large scale investment, a lack of proper technology and experience, insecurity of the sea-lane transportation, and direct obstructions from the powerful Western oil companies. On his return to Japan, in May 1939, Engineer Mitsuchi submitted a report to the government, entitled 'Questions on oil concession agreement in Saudi Arabia,' in which he provided comprehensive information on oil business circumstances and detailed process of negotiations in Saudi Arabia with the Japanese government.¹¹⁹

At that time, Saudi Arabia had not established relations with other Asian countries yet. In 1945, Saudi Arabia declared war against Japan, following the Yalta Conference held in February that year. It was stipulated indeed that only the countries which had declared war against the Axis by 1 March 1945 could be the original member countries of the United Nations at the end of the war. In total, 45 countries declared war against Japan, including Saudi Arabia, Turkey, Egypt, Syria, Lebanon, Iran and Iraq. Those countries wished to avoid international isolation in the new global community after World War II and acted for their own country's benefit. However, as a matter of fact, they never actually fought against

¹¹⁸ Nakajima, Ikuo, *Sekiyu to Nippon (Oil and Japan)* (Tokyo: Shincho-sha, 2015): pp.58-62 (in Japanese).

¹¹⁹ Ministry of Foreign Affairs of Japan, 'Diplomatic archives. Questions and answers', *op. cit.*

Japan. After having established an embassy in Turkey in August 1925, Japanese legations (not embassies yet) had been established in Iran in 1929, in Egypt in 1936, and in Iraq in 1939 respectively.¹²⁰ Those legations were replaced by official embassies in the 1950s and 1960s. Diplomatic relations with Syria and Lebanon too were established in 1953 and 1954 respectively.

The Japanese government resumed negotiations regarding the establishment of diplomatic relations with Saudi Arabia in 1953. The two countries signed a peace treaty, which was ratified on 13 March 1954, and the relations were formally established in June 1955. In 1956, Japanese Ambassador to Egypt Yutaka Tsuchida was appointed as a (non-resident) chargé d'affaires at the Embassy of Japan in Saudi Arabia. Simultaneously, the Saudi government established an embassy in Tokyo in January 1958. The first Ambassador to Japan was Sheikh Assad Fakieh. The same year, the Japanese government promoted Yutaka Tsuchida to extraordinary and plenipotentiary Ambassador. The Japanese embassy was constructed in January 1960 in Jeddah and Hideji Tamura became the first Ambassador to be stationed in the kingdom.¹²¹ As the capital city Riyadh became functional, most of the embassies moved to Riyadh from Jeddah in the early 1980s. The Japanese embassy began its diplomatic operations in Riyadh on 1 October 1984.

¹²⁰ Ministry of Foreign Affairs of Japan, 'Japan-Iraq Relations (Basic Data), Diplomatic relations: 1939: Japanese Legation opened in Baghdad' (in Japanese) (November, 2012). Available at: http://www.mofa.go.jp/region/middle_e/iraq/data.html (accessed on December 12, 2015).

¹²¹ The Royal Embassy of Saudi Arabia in Tokyo, *op. cit.*

2.2 Japan's first oil development and the 1973 oil crisis: 1955 – 1975

2.2.1 Japan's energy policy after the Second World War

Prior to the first oil crisis which broke out in October 1973, there were two different periods of Japan's energy policy after WWII:

1) *The post-war reconstruction period (1945 through 1962)*

At first, Japan adopted a 'priority production system'¹²² which primarily ensured to increase the production of coal and steel. This was aimed at revitalizing the domestic economy, after the war, by establishing joint government-private coal increasing-production systems. Then, the government pursued a 'coal-oil priority policy' which utilized coal as the main energy supply fuel while pushing forward the rationalization of the coal mining industry which fell into structural depression in response to coal recession after the end of the Korean war in 1953.

2) *The rapid economic growth period (1962 through 1972)*

In 1962, coal was replaced by oil as a prime fuel for the first time in Japan. The comparatively cheap oil brought from Middle Eastern oil fields pushed the coal, which was previously a prime energy resource, aside. Similar to the British strategy to replace the naval fuel (coal) by oil in 1911, the Japanese decisive policy of an energy shift from coal to oil was termed as a fluid revolution.¹²³ Japan

¹²² Yoshioka, Shinji and Hirofumi Kawasaki, 'Japan's high-growth postwar period: The role of economic plans', in *Economic Social Research Institute (ESRI) Research Note No.27*(2016), pp.28-32.

¹²³ Hein, Laura Elizabeth, *Fueling growth: the energy revolution and economic policy in postwar Japan*. No. 147. (Massachusetts: Harvard University Press Asia Center, 1990): pp.316-317; see also Odano, Sumimaru and Aratani, Katsuki, 'Nihon no Energy Sangyoo no Kouzou Henka – Sekitan Sangyoo no Suitai to Ryutai Kakumei' (Structural changes

utilized the cheap and secure oil supply as a basic pillar of its energy policy. Oil brought about enormous change in Japan. In particular, the Japanese government tried to consolidate the nation's oil refinery capacity and production plan under governmental control and planned to ensure consistent development of petrochemical industries, based on the principle of proximity between oil refinery and consumption in order to guarantee a secured supply of petrochemical products.¹²⁴ On the other hand, Japan received not only the benefits of oil but also its negative side effects in the form of pollution and pollution-triggered diseases.

As a consequence of the 1973 oil crisis and the painful experience of the effects of a limited oil supply, Japan recognized that the securing of a stable energy supply was a prime political target of national interest and implemented practical measures to improve the fragile energy supply networks and infrastructures. Quickly after the 1973 oil crisis, the Japanese government announced a new energy policy and targets, focussing on the reduction of oil dependence, the diversification of energy supply source (towards non-oil energies), the securing of a steady oil supply, the promotion of energy saving technologies, and the emphasis on research and development of new energy.¹²⁵ In this perspective, the Ministry of International Trade and Industry (MITI)¹²⁶ established in July 1973 a new Agency for National Resources and Energy (ANRE) in order to unify the

in Japanese energy industry – The decline of coal industry and fluid revolution), in *Hikone Rongyo*, No.367, Shiga University (July 2007), pp.129-136 (in Japanese).

¹²⁴ Ministry of Economy, Trade and Industry, 'Japan's Energy White Paper 2005, Introductory Chapter – Energy and people's daily life / economic activities' (in Japanese) (2005). Available at: <http://www.enecho.meti.go.jp/about/whitepaper/2005html/0-2.html> (accessed on December 10, 2015).

¹²⁵ *Ibid.*

¹²⁶ MITI changed its name as Ministry of Economy, Trade and Industry (METI) in 2001, as part of the reorganization of the central government.

two offices in charge of mining and coal and utilities projects.¹²⁷

Then, in order to implement the new energy research and development in the medium term, MITI's 'Sunshine Project' was instituted in 1974 with the aim of developing new technologies to supply new clean energy and meet the domestic industry's energy demands.¹²⁸ This was the first example of a substantial collaboration between the government and the private sector for energy projects. This project, integrated with other projects such as the Moonlight project (R & D of energy-saving technologies) and the Global Environment Technology Projects, was succeeded by the New Sunshine Project in 1993. The purpose of this new project was to develop environmental protection, economic growth, new/saving energy technologies for well-balanced energy control etc., in particular liquefaction of coal and utilization of geothermal, solar power, and hydrogen energies. In addition, another governmental organization, the New Energy and Industrial Technology Development Organization (NEDO) was established in 1980 under the MITI's umbrella. This was based on the fact that Japan experienced both the 1973 and the 1979 oil crisis, and the research and development of alternatives to oil were adopted as the prime target for technical solutions.

¹²⁷ Since 1973, the ANRE has jurisdiction over the energy supply policy (oil, gas, and electricity) and energy saving technologies, and renewable energy development (atomic, solar, wind, and smart community etc.).

¹²⁸ New Energy and Industrial Technology Development Organization (NEDO), 'The 40th Anniversary of Sunshine Project. Significance, the beginning of Japan's energy development,' *NEDO Special Issue* (in Japanese) (July, 2014). Available at: <http://www.nedo.go.jp/content/100574164.pdf> (accessed on December 18, 2015).

2.2.2 Japan's oil interests in the Arabian Peninsula and the Arabian Oil Company

French Prime Minister and journalist Georges Clemenceau (1841 – 1929) had expressed the crucial competitiveness of oil acquisition at the time of World War I with the famous formula: 'a drop of oil is worth a drop of blood'. That also applied to Japan as the country experienced a crucial energy-scarcity predicament through World War II. Japan primarily relied on international oil companies to meet its domestic demand for oil. The narrative of Japan's original oil field development in the Middle East region dates back to 1932. The *British Oil Development Co.* brought the Embassy of Japan in the United Kingdom a suggestion for participation in a capital increase plan of an oil development project in western Mosul in Iraq. The Japanese government quickly organized a public-private project team and began to investigate the feasibility for its realization. However, despite a strong interest among private companies, the government did not approve the project in the end, due to difficulties regarding transportation costs and an unexpectedly large investment needed. The risks in the oil development business without governmental political and financial support were too high for private companies and it was no longer a viable project for Japan at that time.¹²⁹

It was a businessman, Taro Yamashita, who paid keen attention to Middle Eastern crude oil and obtained the information that Saudi Arabia might give the right to excavate submarine oil fields in the offing neutral zone with Kuwaiti

¹²⁹ Nakajima, *op. cit.*, pp.56-64.

territory to a foreign company in the late 1950s. Yamashita was brought up under the patronage of a business speculator father and began to deal with various businesses in Manchuria, building his business network with bureaucrats and influential entrepreneurs. He ambitioned to enter the lucrative oil business in the 1950s.¹³⁰ At the time, Japan's crude oil import increased rapidly through the huge and constant demand which resulted from post-war reconstruction projects. Most of the oil suppliers were situated in the Middle Eastern countries.¹³¹ However, without political influence, appropriate technology and expertise in oil development, Japan was forced to depend on the Majors for the import of oil.¹³² It was only in the 1950s that oil-producing countries, recognizing its oil purchasing power, began to approach Japan to participate in the development of new oil fields. Several combined reasons explain this move: the oil-producing countries' ambition to reduce their financial dependence on international oil companies¹³³ was fuelled by Arab nationalism feelings and approach towards natural resources in the Middle East,¹³⁴ and by huge expectations in relation to Japan's process of industrialization after World War II.¹³⁵ Saudi Arabia exemplifies this evolution. During Sa'ud's reign (r.1953-64), crude oil production boomed. As a result, the

¹³⁰ Arabian Oil Company, *The 35-year history of the Arabian Oil Company 1958-1993. A bridge between the Arabian Gulf and Japan in war and peace* (Tokyo: Arabian Oil Company Ltd., 1995), pp.34-42 (in Japanese).

¹³¹ Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry, 'Japan's Energy White Paper 2013,' (in Japanese) (2014). Available at: <http://www.enecho.meti.go.jp/about/whitepaper/2013html/2-1-3.html> (accessed on December 10, 2015).

¹³² Stevens, Paul, 'National oil companies and international oil companies in the Middle East: Under the shadow of government and the resource nationalism cycle', in *The Journal of World Energy Law & Business* 1.1 (2008), pp.9-16.

¹³³ Bronson, Rachel, *Thicker than oil: America's uneasy partnership with Saudi Arabia*. (Oxford: Oxford University Press, 2008): pp.39-42.

¹³⁴ Stevens, *op-cit*.

¹³⁵ Hayashi, Takeshi, *Gijutsu to Shakai – Nihon no Keiken (Technology and society – Japanese experiences)* (Tokyo: Tokyo Daigaku Shuppan kai, 1986): pp.57-73.

Saudi state's oil income largely increased, especially after the profit-sharing agreement with Aramco signed at the end of 1950. King Sa'ud planned a pervasive implementation of administration systems nationwide, by establishing the Ministry of Education, the Ministry of Agriculture and Water, and the Ministry of Commerce as well as upgrading the Petroleum and Mineral Affairs Department at the Ministry of Finance and National Economy to a full Ministry of Petroleum and Mineral Resources in December 1960. In addition, King Sa'ud University was established in Riyadh as the first university in the Gulf in 1957.

Yamashita was involved in oil development business in Indonesia just after its independence, however, he withdrew promptly from the project due to the various risks related to the unstable political situation in the country. In January 1957, Yamashita received information on new oil business opportunities in Saudi Arabia from the Ministry of Foreign Affairs in Japan (MOFA). When Japanese Ambassador to Egypt Tsuchida, who was also holding the post of chargé d'affaires at the Embassy of Japan in Saudi Arabia, presented his credentials to King Sa'ud, it was suggested by the king that Japan would join in the new oil business in the country as Saudi Arabia ambioned to diversify business opportunities to international oil developers including Japan. Yamashita regarded the information as an excellent opportunity for Japanese oil industries and asked for the cooperation of Keidanren (the Japan Business Federation in Tokyo) and business executives, utilizing his network established in Manchuria. He also engaged earnestly in preparations for the founding of the Arabian Oil Company (AOC).¹³⁶

¹³⁶ Arabian Oil Company, *op. cit.*, pp.36-39.

He obtained the support from then Prime Minister Taizan Ishibashi, Foreign Minister Nobusuke Kishi, and former Prime Minister Shigeru Yoshida, and visited Saudi Arabia once again in February 1957. King Sa'ud welcomed Yamashita's delegation (see photo); they reached an agreement 'to start official negotiations for right of interests in acquisition of oil field within six months'.¹³⁷ Yamashita returned home and vigorously carried out a general meeting for the establishment of AOC on 9 July and visited Saudi Arabia again on 26 July. The Saudi negotiating partner was 'Abd Allah ibn Hamoud Tariqi, Director-General of Petroleum and Mineral Affairs at the Ministry of Finance and National Economy, who later became the first Minister of Petroleum and Mineral Resources (1960-1962). He suggested that the Saudi-Kuwaiti offing neutral zone was the most promising field to excavate.¹³⁸

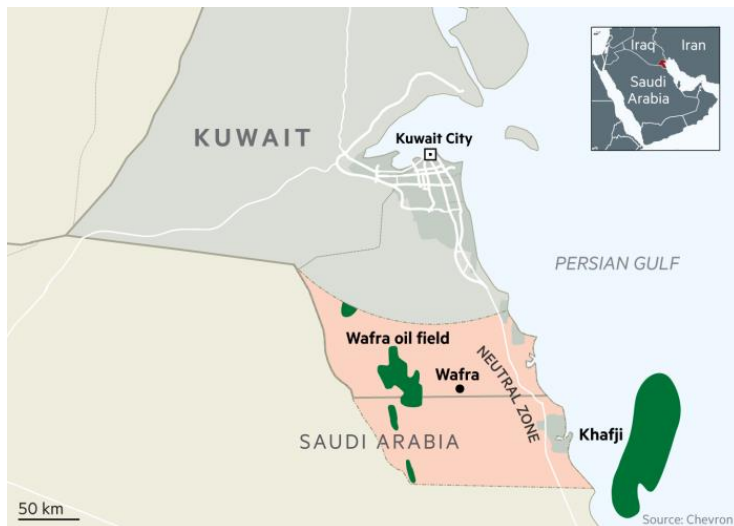


Arabian Oil Co.'s President Taro Yamashita and King Saud in 1957
Source: Archives of the Royal Embassy of Saudi Arabia in Japan

¹³⁷ The Royal Embassy of Saudi Arabia in Tokyo, *op. cit.*

¹³⁸ Arabian Oil Company, *op. cit.*, pp.39-57.

On the Saudi government's request to make AOC a Saudi corporation, the negotiations for the oil acquisition rights ran into difficulties. However, as a result of tenacious negotiations, the right of interests was signed as a concession agreement with a condition of halving benefits in December 1957. The Saudi intention was to rebalance existing oil granting rights which were completely devoted to the US and European companies.¹³⁹ The new AOC company was set and formally registered as a Japanese company in February 1958. Yamashita took office as its first president. In July 1958, AOC was able to sign a concession agreement with Kuwait as a result of intense negotiation. After the technical excavation and extraction works advanced on the site, which was later named the Khafji oil field, the crude oil gushed out of the field 1,670 meters below ground in January 1960. It was confirmed that the Khafji oil field was one of the world's most significant oil fields with enormous reserves but the oil field had much sulphur content and contained heavy crude oil. AOC multiplied efforts to comply with the customer's requirement by installing desulfurization facilities.



Map 1. Location of Khafji oil development field (Source: Financial Times).

¹³⁹ Marcel, Valerie, *Oil titans: National oil companies in the Middle East* (Maryland: Brookings Institution Press, 2006): pp.28-30.

As for the political situation in the Middle East in the 1950s, the influence of former colonial powers and the Cold War created a complex dynamic in the region. When Egyptian president Nasser, who took office in 1956, declared the nationalization of the Suez Canal Company in July of the same year, King Sa'ud supported this move and significantly intensified financial support for Egypt. When Israel invaded the Sinai Peninsula in October 1956, followed by the British and French armed forces, King Sa'ud appealed to the Muslim countries for solidarity and simultaneously dispatched Saudi military forces to Jordan. On the other hand, King Sa'ud asked the US President Eisenhower to mediate for a cease-fire, which took effect in November 1956. The political coordination between the United States and USSR, forcing the United Kingdom, France and Israel to declare a cease-fire and to withdraw from the Canal zone, contributed to the détente of the Cold War and symbolized a hegemonic change in the international influence in the Middle East. Simultaneously Arab nationalism ideas and movements contributed to push Middle Eastern regimes to re-assess their diplomatic relations with the US and Europe. This materialized with the foundation of OPEC a few years later. Oil-producing countries, including Saudi Arabia, did not have the authority to decide on the evolution of oil prices and volumes due to the lack of comprehensive oil development technology, financial management and human resources. Although the international oil demand increased, the market was dominated exclusively by the international Majors. On the occasion of the one-sided reduction of the declared volume of crude oil produced by the Majors in February 1959, the oil-producing countries, which largely depended on oil for their foreign currency income, increased mutual cooperation in order to

establish an organization to protect the price of oil and reduce their dependency toward the Majors. Five oil producing countries (Saudi Arabia, Kuwait, Iraq, Iran, and Venezuela) gathered in Baghdad and declared the establishment of OPEC in September 1960.

This situation created a favourable situation for AOC during the negotiation of acquisition of the Khafji oil field. Yamashita expressed that the Khafji development represented an extremely fortunate occasion for Japan. It was a pioneering project of substantive opportunities for 'Asia-shifting' for Saudi Arabia and Kuwait involving diversification of the oil right grant project.

In the post-war reconstruction period from 1945 onwards in Japan, the dominant energy fuel source was coal. However, less expensive oil flowed into Japan from the Middle East while the cost of coal gradually increased. The posted price per barrel (Arabian Light) imported to Japan was around 2 US Dollars per barrel (CIF) until the Yom Kippur / October War broke out.¹⁴⁰ Oil consumption in Japan increased rapidly, and the share of oil in Japanese primary energy sources jumped up to 55.9% in 1965 and peaked at 75.5% in 1973, indicating substantial energy dependence on the Middle East.¹⁴¹ It showed that the whole Japanese industry virtually accepted 'a fluid revolution'¹⁴² illustrating an energy shift from coal to oil. Most of the Japanese electric companies changed fuel from coal to oil

¹⁴⁰ Ministry of Economy, Trade and Industry, 'Oil related data 50 years (1950-2000), Economic Trend – Statistics,' (in Japanese) (July 16, 2002). Available at: <http://www.hkd.meti.go.jp/hokno/oil50years/index.htm> (accessed on April 20, 2018); and Niblock (with Malik), *The political economy of Saudi Arabia, op.cit.*, p.39.

¹⁴¹ Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry, 'Japan's Energy White Paper 2015' (in Japanese) (2015), p.109. Available at: http://www.enecho.meti.go.jp/about/whitepaper/2015pdf/whitepaper2015pdf_2_1.pdf (accessed on March 29, 2016).

¹⁴² Murota, Yasuhiro, and Y. Yano, 'Japan's policy on energy and the environment' in *Annual Review of Energy and the Environment* 18.1 (1993), pp.89-103.

for power generation. Steam locomotives were gradually abolished as electrification advanced in the national railways. In addition, petrochemical complexes were built in many industrial areas in Japan in the 1950s. These petrochemical complexes became one of the core industrial developments in Japan supported by the government. The latter regarded the petrochemical industry as a new strategic industry for Japan, providing it with comprehensive financial support.

2.2.3 The 1973 oil crisis: 'oil panic' in Japan

2.2.3 (1) Impact on the Japanese political economy

The 1973 oil crisis seriously jolted Japanese society, as the country depended on the Middle East for 80% of its domestic oil requirements.¹⁴³ The event impelled the reshaping of Japanese foreign policy toward the Middle East as well as the reviewing anchored relations with the United States. Japanese society was generally unaware of the Middle East's political situation before the oil crisis hit Japan. The population was accustomed to think that the oil could be purchased stably at a relatively low cost from the region and that the United States would support Japan if any critical issues arose regarding the oil supply. However, a Japanese diplomat who was later to join in the official delegation to eight Middle Eastern countries in December 1973 recollected that the Japanese government

¹⁴³ Japan Oil, Gas and Metals National Cooperation, 'Natural resources library, Basic information: Main use of oil and natural gas', (in Japanese) (2013). Available at: http://www.jogmec.go.jp/library/oilgas_002.html (accessed on December 25, 2015).

was critically aware of the significance of oil diplomacy and considered the latter as the essence of international politics for the first time.¹⁴⁴

In the 1960s and the 1970s, Japan enjoyed a peak of economic growth, illustrated by the Tokyo Olympic Games and its infrastructure projects, including the inauguration of Shinkansen high-speed railway networks in 1964 and the Osaka World Exposition in 1970. In addition, Japan's GNP exceeded West Germany's figure in 1968 and it became the third largest economic power in the world. On the other hand, Japan was also the world's third biggest oil consumer after the United States and USSR and crucially depended on oil for both manufacturing and social activities.

In this period, Saudi Arabia had already entered into a phase of 'planning for transformation (1970-1985)' as Niblock referred to it.¹⁴⁵ Based on the expanding development and benefits of the oil industry, Saudi Arabia was trying to transform its domestic industrial shape, 'building up a substantial industrial base', 'promoting agriculture' for self-sufficiency, and 'creating the social and physical infrastructure of a modern state'.¹⁴⁶ This period witnessed significant changes related to sharp oil price rises in 1973 and 1979 which greatly contributed to Saudi national development projects on a major scale.

Because Japan had intentionally adopted an ambivalent 'political neutrality' toward the Middle Eastern countries since the third Arab-Israeli war in 1967,¹⁴⁷

¹⁴⁴ 'Sekiyu kiki kara "Wangan Trauma", Arab yori no rosen tankan ("The Gulf Trauma" from the Gulf crisis, changing Pro-Arab policy)', *The Asahi Shimbun Globe*, March 9, 2016 (in Japanese).

¹⁴⁵ Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.52-54.

¹⁴⁶ *Ibid.*, pp.92-93.

¹⁴⁷ Licklider, Roy, 'The power of oil: the Arab oil weapon and the Netherlands, the United Kingdom, Canada, Japan, and the United States' in *International Studies Quarterly* (1988), pp.205-226 and Shimizu, Manabu, 'Japan's Middle East Policy' in *Japan Quarterly* 35.4 (1988), p.383.

Japan's expression of a pro-Arab policy¹⁴⁸ was portrayed as a message of 'clarification' of conventional diplomatic attitudes toward the Middle East, not in the meaning of a 'shift' or 'switch' of the Japanese foreign policy.

The Yom Kippur War / October War broke out in October 1973. On 17 October, the Organization of Arab Petroleum Exporting Countries (OAPEC) declared the reduction of oil production. While the organization unilaterally raised the crude oil price, it announced its decision to reduce export to countries which did not support the Arab coalition. The latter categorized oil-consuming nations worldwide as: 1) friendly; 2) neutral; and 3) adversarial. The United States and the Netherlands were recognized as adversarial states and a complete oil embargo was applied against them (as well as Portugal and South Africa)¹⁴⁹ while the United Kingdom, France, and Spain were deemed as friendly nations based on their collaborative military relationship with the Arab countries. Japan's classification was unknown yet, while the government considered itself as a neutral country. As a result of this declaration, the posted price of Middle Eastern crude oil (Arabian Light) sharply increased from US Dollar 3.011 per barrel to US Dollar 5.119 per barrel, i.e. an approximately 70% increase.¹⁵⁰

On 18 October, a cable from Kuwait to the Japanese Ministry of Foreign Affairs stated that the Arab oil-producing countries had decided to reduce oil production by 5% in volume of the average production in September. However, it would not affect 'the friends of the Arab nation.'¹⁵¹

¹⁴⁸ Ikeda, *op. cit.*, pp. 16-25.

¹⁴⁹ Itayim, Fuad, 'Arab Oil-the Political Dimension', in *Journal of Palestine Studies* 3.2 (1974), pp.84-97.

¹⁵⁰ De Vries, Margaret Garritsen. *The International Monetary Fund 1972 – 1978: Cooperation on Trial I: Narrative and Analysis* (Washington D.C.: International Monetary Fund, 1986): pp.305-306.

¹⁵¹ Tsurumi, Yoshi, 'Japan', in *Daedalus* 104.4 (Fall 1975), pp.113-127.

Two days after the OAPEC statement, the ten Arab ambassadors in Tokyo¹⁵² visited Minister of Foreign Affairs Ohira and delivered him a verbal note, asking Japan to support the Arab countries in the war in the Middle East. They requested a clarification of Japan's Middle Eastern policy. At the meeting, Saudi ambassador Sheikh 'Awni al-Dajjani stated that 'although there is no official diplomatic cables from the kingdom, I understand Japan will not suffer from any inconvenient effect from the crisis'.¹⁵³ This was very much appreciated by the Japanese side since, if the majority of oil imports had to be stopped due to the Arab embargo, the effect on Japan's economy would have been considerable and lead to prolonged economic malaise. On the same day, Kuwaiti ambassador al-Ghoussein also commented that 'of course, Japan is among the friendly nations.'¹⁵⁴

According to Shiratori, who has investigated the MOFA's decision-making process in 1973 using disclosed documents from the Ministry, a number of developments in the Middle East at the time had not been anticipated by the Japanese administration.¹⁵⁵ As an example, MOFA's successive meetings on Middle Eastern political issues in July 1973 had failed to predict the possibility of another outbreak of war in the region – probably due to limited available information sources. The Middle East department within the Japanese Ministry of Foreign Affairs had been set up in 1955, however human resources were not

¹⁵² Ambassadors of Algeria, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Qatar, Saudi Arabia and Sudan (*The Japan Times*, October 20, 1975).

¹⁵³ Hosaka, Shuji, 'Nihon • Chuuto • Sekiyu – 40 nen-mae to 10 nen-mae to 60 nen-mae (Japan • Middle East • Oil – 40 years ago, 10 years ago and 60 years)', in *JCCME news*, (2013.12 / 2014.1), pp.66-72 (in Japanese).

¹⁵⁴ Burrige, James Michael, *Pressure deflected: Japan and the 1973 Arab oil embargo*. (PhD dissertation: University of Michigan, 1988): p.68.

¹⁵⁵ Shiratori, Junichiro, '*Keizai-taikoku' Nihon no Gaiko (The Energy Resource Diplomacy of a Rising Japan, 1967-1974)* (Tokyo: Chikura-shobo, 2015): pp.166-185.

enough to cover the region in the mid-1970s. The number of Arabic speakers at the Ministry in 1973 was around 30 and Japanese staff at the embassies/consulates in the Middle Eastern countries were very few. In addition, most of the embassies had joint administrative operations in neighbouring countries. For example, the ambassador to Kuwait held joint administrations in Bahrain, Qatar, the United Arab Emirates and Oman, and the number of Japanese staff at the embassy in Kuwait was just four including the ambassador. Despite the fact that Japan's critical dependence on the region for its oil import, diplomatic deployment in the region was not matching this geostrategic significance.

The MOFA, therefore, concluded that the possibility that the Arab countries would utilize oil as a political weapon during the next war was unlikely. Additionally, Japan had anticipated that the Egyptian government had two political choices: either to demonstrate military actions for conducting a limited war; or to pressurize the Israeli economy by mobilizing the oil weapon. But Japan did not expect that Egypt would pursue the two at the same time. This political analysis proved agonizingly wrong.¹⁵⁶

The situation quickly exacerbated, as the United Arab Emirates and Saudi Arabia announced an embargo against the United States on 18 and 20 October respectively. Furthermore, the Japanese ambassador in Riyadh confirmed on 20 October that Japan was unexpectedly categorized as a non-friendly nation, despite the fact that the embassy in Riyadh had received a confirmation the day before from the Saudi Deputy Minister of Petroleum and Mineral Resources that

¹⁵⁶ Shiratori, *op. cit.*, p.175.

he was confident that Japan would be categorized as one of the friendly nations.¹⁵⁷ It was undeniable that Japan had failed to anticipate the Saudi decision and had been too optimistic on the process of categorization.¹⁵⁸

On 22 October, Israel and Egypt accepted the status quo cease-fire resolution of the United Nations' Security Council. It was accepted by Syria the day after. On the same day, Majors Exxon and Shell gave notice of a 30% price increase of crude oil to Japan. Other Majors followed this policy, declaring a 10% supply reduction on 25 October. In a verbal note, the Saudi government ordered the Japanese-owned Arabian Oil Company in al-Khafji to reduce production by 10%.¹⁵⁹ Japan was one of the world's largest crude oil importers and depended on it for 99.7% of its oil import requirement, mainly (80%) from the Middle East. There were only 54 days of private companies' oil reserves in Japan in March 1973.¹⁶⁰ The 1973 oil crisis contributed to reveal Japan's fragile structure of its economy and oil dependency on the Middle East. Japanese economic growth, relying on oil and heavily consuming it, was heavily affected. Another element which was missing in MOFA's analysis of the oil crisis was the fact that the Majors could still control the logistical flow of oil so that they could redistribute a certain volume of oil even if the influence of the Arab oil-producing countries was extended. As a result, the Majors were able to partially alleviate the influence of

¹⁵⁷ *Ibid.*, pp.183-188.

¹⁵⁸ Stone, Suzan Carol, *Dual dependence: Japanese policy toward the Middle East* (PhD dissertation: University of Michigan, 1997): pp.56-59.

¹⁵⁹ *Ibid.*, p.58.

¹⁶⁰ National reserves were created in 1978 only. See Research Organization for Information Science and Technology (RIST), 'Energy and global environment, Japan's prime energy, Oil, Current status and issues on oil storage in Japan, Table 4 Transition of oil storage', (in Japanese) (August, 2006). Available at: <http://www.rist.or.jp/atomica/data/pict/01/01030204/04.gif> (accessed on December 25, 2015).

the oil embargo by discretionarily allocating the oil supply among the oil-consuming countries so that a particular country would not suffer disproportionately.¹⁶¹

The information that Japan was not listed as a 'friendly nation' came as an unexpected shock among the whole Japanese industry and MOFA. Japan considered itself as external to any political or religious issue and debate in the Middle East. Just before the oil crisis began, Japanese Minister of International Trade and Industry Nakasone visited Iran, Kuwait, Saudi Arabia, and UAE in May 1973 to secure the oil supply and discuss possible Japanese contributions in the field of technical cooperation and training with the respective governments. For the Japanese government, there was no reason why Japan would be considered by the Arab coalition as an unfriendly and Israeli-supporting country.¹⁶²

On 4 November, the OPEC decided on a further 25% reduction of oil production. Two days later, Chief Cabinet Secretary Nikaido published the following statement, intended to present the Japanese pro-Arab position to the Arab countries, calling for the Israeli withdrawal from the occupied territory and expressing Japan's support for the United Nations' Security Council Resolution 242 in 1967.

The Japanese political stance on the Middle East issues remains unchanged as officially stated in the recent note verbal addressed to the

¹⁶¹ Shiratori, *op. cit.*, p.182.

¹⁶² Furuta, Masao, 'Kokusai seiji to daiyoji sekiyukiki no kanoosei – enerugii shigenkakuho wo meguru chiseigaku-chikeizaiteki hendoo no ichi koosatsu (International relations and the probable 4th oil crisis – A study of geopolitics / geo-economic changes in securing energy resources)', in *Shakai Kagaku Zasshi (Social Science Magazine)* No.8, Nara Gakuen University, Japan (December 2013), p.120.

*ten Arab ambassadors in Tokyo. The Japanese government does not approve any territorial acquisition by military actions at all, and, by this political position, has been insisting to implement UN Resolution 242 urgently. The Japanese government continuously insist on the full and immediate implementation of UN Resolution 242 which is described in the cease-fire resolution of the Yom Kipper War / October War. Additionally, Japan strongly wishes that both the United States and USSR, which have huge influences in this region, take every possible endeavours to resolve the distressful situation fairly and promptly. By the same way, Japan reiterate its support to UN resolutions which recognize the Palestinian people's equality and self-determination.*¹⁶³

This statement was obviously announced in consideration of Japan's relations with the United States, however it was a significant statement as it can be considered as 'the first independent foreign policy initiative by the Japanese since World War II'.¹⁶⁴ However, this was perceived by many Arab countries as ambiguous and was not enough to persuade them to recognize Japan as a friendly country. MOFA decided to dispatch an unofficial envoy to Saudi Arabia on the same day. This delegation, composed of a former ambassador to the kingdom, Hideji Tamura and a former Embassy staff member, Keiichi Morimoto,

¹⁶³ Ministry of Foreign Affairs of Japan, 'Gaiko (Diplomacy) Bluebook No.18 (1974), Last Volume, current status of Japanese diplomacy, The 4th Middle East war and the Middle East issues, (b) Chief Cabinet Secretary, Nikaido's statement on the Middle East issues' (in Japanese) (1974). Available at: http://www.mofa.go.jp/mofaj/gaiko/bluebook/1974_2/s49-shiryuu-4-1-14.htm (accessed on December 26, 2015).

¹⁶⁴ Curtis, Michael (ed.), *The Middle East: A reader*. (New Jersey: Transaction Publishers, 1986): pp.456-457.

was tasked to examine what Saudi Arabia expected from Japan in this impending situation. In order to complete the mission effectively, they were dispatched separately. A first unofficial meeting was held with Morimoto, followed by an official one held with Tamura. He had an audience with King Faisal on 12 November during which he explained the difficult economic situation in Japan. Morimoto then had an unofficial meeting with Kamal Adham. A former director general of the General Intelligence Directorate, Kamal Adham was adviser to King Faisal and recognized as one of his representatives.¹⁶⁵ He was also a business coordinator of AOC.¹⁶⁶ Simultaneously, AOC President Sohei Mizuno was requested by Minister of International Trade and Industry Nakasone to visit Saudi Arabia separately.¹⁶⁷ All of them reported the seriousness of the situation to the government and asserted the Saudi request to clarify Japan's political position. Kamal Adham pressurized Japan to adopt political neutralism by freezing diplomatic relations with Israel in order to become perceived as an Arab-friendly nation. Through discussions with Morimoto, Kamal Adham even submitted a pro-Arab draft statement to the Japanese government. The first half displayed a rather similar approach towards the Middle East political situation as the one Japan had presented earlier. However, in the second half of the draft, Adham suggested to include a sentence stating that 'Japan would reconsider the relations with Israel' in case the latter would not withdraw from the occupied territory. Kamal Adham promised that Saudi Arabia would supply oil to Japan if

¹⁶⁵ Furuta, *op. cit.*, pp.121-122 and Shiratori, *op. cit.*, pp.201-205.

¹⁶⁶ Vassiliou, Marius S., *The A to Z of the petroleum industry*. (Plymouth: Scarecrow Press, 2009): pp.496-497.

¹⁶⁷ As a conventional style diplomatic approach, the Japanese government had the two-channel structure (through MOFA and MITI) and it remained unchanged for decades.

the Japanese government accepted the content of the draft statement.¹⁶⁸

This draft would mark a clear shift away from Japan's neutral diplomacy towards a decisively pro-Arab policy demanding the Israeli withdrawal from the occupied territory, and even Japan's potential reconsideration of its diplomatic relations with Israel. Ironically, this Saudi request came while the United States Secretary of State Henry Kissinger was visiting Japan and the cease-fire deal of the Yom Kippur War / October War was about to be reached.

On 14 November indeed, on his way home from a visit to the Middle East and China, Henry Kissinger had a discussion with Prime Minister Kakuei Tanaka. He emphasized that the Japan-United States relationship might break down if Japan was to adopt a pro-Arab approach¹⁶⁹ because Washington was in the process of pushing forward the Middle East peace process negotiations, and, therefore, asked Japan to abstain from adopting such a diplomatic attitude. By contrast, under domestic pressure to secure oil supply, Tanaka confronted Kissinger as follows: 'If we take the position you require from us (towards the Middle East), and as a result the Arabs view us as their enemy and end all oil shipments to Japan, will the United States supply the oil that Japan needs?'¹⁷⁰

The United States accurately perceived how Japan viewed the influence of the oil crisis on the domestic situation. They knew that Japan's pessimistic prospect on oil import and the fear of a possible embargo was widespread inside the Tanaka administration following the OAPEC statement on 5 November. Kissinger

¹⁶⁸ Nakajima, *op. cit.*, p.178 and Shiratori, *op. cit.*, pp.202-205.

¹⁶⁹ Yorke, Valerie, 'Oil, the Middle East and Japan's search for security', in *International Affairs* 57.3 (1981), pp.428-448.

¹⁷⁰ Kuroda, Yasumasa, 'The oil crisis and Japan's new Middle East policy, 1973', in *Annals of Japan Association for Middle East Studies*, No.1 (1986), pp.150-151 (in Japanese).

commented for instance that ‘if our (Japanese) policy failed, all the frustrations of the Arab world might fall on Japan.’¹⁷¹ Moreover the US administration had prepared a couple of simulations of political counter-measures that the Arab coalition could implement toward Japan and European countries, and therefore, understood that Japan could not avoid adopting a pro-Arab diplomacy – compared to European countries, who had other diplomatic options. As a result, although the United States insisted that the Japanese government’s clarification of a pro-Arab foreign policy would not bring any diplomatic benefit to Japan in the long term, they showed some understanding for Japan’s decision. The United States’ interests were not related specifically to the Japanese pro-Arab foreign policy clarification, but they were keen on Japan participating in a new energy organization gathering the oil-consuming countries.

On 16 November, the Japanese government set up ‘headquarters for urgent promotion of oil measures’ in a Cabinet meeting and decided ‘oil emergency measures,’ including: a national campaign to reduce oil and electricity consumption by 10%; the enforcement of administrative instructions to that effect; and an emergency legislation to ensure economic stability. Furthermore, the Japanese government promulgated on 22 December two new oil-related bills entitled ‘emergency measures for people’s life’ and ‘adequacy measures for oil supply and demand.’¹⁷²

On the occasion of the Arab oil ministers’ meeting held in Vienna on 18 November, the Arab countries announced that they would exempt the European Community countries from the 5% extra reduction, appreciating their diplomatic

¹⁷¹ Kissinger, Henry, *Years of upheaval*. (Boston: Little Brown & Co., 1982): pp.740-745.

¹⁷² Ministry of Economy, Trade and Industry, ‘Japan’s Energy White Paper 2005’, *op. cit.*

position during the crisis. However, Japan was not exempted from the 5% extra reduction, although Japan had published a very similar statement to the EC one on 6 November. Hosaka argued that some Arab countries, such as Kuwait and UAE, were in favour of not suspending oil supply to Japan.¹⁷³ However Saudi Arabia maintained its aggressive attitude against Japan, expecting Japan to adopt a more explicit pro-Arab position and to pressurize Israel by stopping economic exchanges.¹⁷⁴

Opinions inside the government were divided in the face of an unprecedented economic crisis since World War II. While Kissinger expressed its displeasure with any Japanese plan to adopt a pro-Arab Middle East foreign policy, however, Prime Minister Tanaka strongly insisted that Japan had no other choice than adopting a pro-Arab position in order to secure oil supply. On the contrary, Foreign Minister Ohira argued that 'Japan cannot ignore the American intention because Japanese diplomacy was based on the cooperation with the United States'.¹⁷⁵ Tanaka decided to endeavour to develop Japan's original diplomacy focussing on acquisition of energy resource. This was based on the assumption that Japan's oil consumption in the following ten years would be increasing to reach up to one third of the total world consumption. In order to explain his approach, Tanaka conducted in September 1973 a trip to Europe and the USSR, known as 'the diplomatic trip for natural resources.'

Tanaka was a well-known advocator of resource diplomacy and engaged

¹⁷³ Hosaka, 'Japan-Middle East-oil', *op. cit.*

¹⁷⁴ *Asahi Shimbun* (November 19, 1973) and Shihata, Ibrahim FI., 'Destination embargo of Arab oil: Its legality under international law', in *American Journal of International Law* (1974), pp.591-627.

¹⁷⁵ Akao, Nobutoshi, and Maureen White, 'Japan's economic security', in *Intereconomics* 16.3 (1981), pp.115-121.

himself in resolving Japan's fragile energy supply predicament throughout his term of office. Japan's foreign policy towards the Middle East was significantly affected by the process of negotiations regarding northern territories with the USSR in the 1970s. True, Japanese government's offer for development of the Tyumen oil field in the USSR had the ambition to secure energy resources. However, the priority for Japan was to secure a solution to the northern territories' issue and settle the territorial disputes rather than securing energy resource acquisition – the development of the Tyumen oil field being only a means to facilitate the negotiations with the USSR.

Towards the Middle East, the situation and the objectives were different. Therefore, Japan needed to deploy a cautious diplomatic approach toward the Arab countries in order to avoid any misunderstanding that Japan's fundamental purpose of foreign policy was the acquisition of energy resources.

The fourth Middle East war ended on 22 October, however, the Arab countries strengthened their oil strategy to make the Israeli army withdraw from the occupied territory. The Arab countries also announced their decision to reduce oil export by 25% in November, and, furthermore, to introduce an additional 5% reduction of export per month to the oil-consuming countries, except to the countries listed as Arab-friendly. Japanese media reported that the 25% reduction policy would severely damage the Japanese economy. The price of oil products had continued to rise. This coincided with Prime Minister Tanaka's proposal to adopt a comprehensive domestic infrastructure project of 'building a new Japan'¹⁷⁶ to promote the development of inner land. Japanese nationwide

¹⁷⁶ Johnson, Chalmers, 'Tanaka Kakuei, structural corruption, and the advent of machine politics in Japan', in *Journal of Japanese Studies* 12.1 (1986), pp.1-28.

infrastructure projects were indeed booming. In addition, there was a psychological fear that oil supply could be cut off as the result of a lack of commodities. By the announcement of a 25% reduction, the ANRE predicted that oil imports could be declining by 16% in total even if Japan could import oil from non-Middle Eastern countries for the following six months, and that industrial production in the heavy and petrochemical industries could face a 15% decrease.¹⁷⁷

On 22 November, the Tanaka administration arbitrated differences of approaches within the government and decided for a clear shift towards a new pro-Arab Middle East policy. The same day Chief Cabinet Secretary Susumu Nikaido published the following statement:

1. The Government of Japan has consistently supported the achievement of a just and lasting peace in the Middle East through the prompt and complete implementation of UN Security Council Resolution 242. To this end, Japan has continuously asked the government officials of all involved countries to implement all UN resolutions calling for the Palestinians' right to self-determination.

2. The Government of Japan considers that the following principles should be adhered to in order to achieve a peace settlement:

(1) The inadmissibility of acquisition and occupation of any territory by the use of force;

(2) The withdrawal of Israeli forces from all territories occupied since the

¹⁷⁷ Ministry of Economy, Trade and Industry, 'Japan's Energy White Paper 2005', *op. cit.*

1967 war;

(3) The respect for the integrity and security of the territory of all countries in the region and the need for guarantees to that end;

and (4) The recognition of and respect for the legitimate rights of the Palestinian people in accordance with the Charter of the United Nations in bringing about a just and lasting peace in the Middle East.

3. The Government of Japan, deploring Israel's continued occupation of Arab territories, urges Israel to comply with these principles. The Government of Japan will continue to observe the situation in the Middle East with grave concern and, depending on future development, may find it necessary to reconsider its policy toward Israel.

This statement marks a historical diplomatic shift away from Japan's position of neutrality.¹⁷⁸ This is illustrated by the words pronounced in 2001 by former Prime Minister Nakasone, 28 years later:

'At the time of the 1973 oil crisis, the Arab countries adopted an embargo on oil to Japan. I was deeply concerned by the situation, as a MITI Minister, and asked AOC President Sohei Mizuno to go to Saudi Arabia and negotiate with King Faisal. When we said to him that 'the Japanese economy is in danger, please lift the embargo,' King Faisal answered:

¹⁷⁸ Japanese experts regarded this statement as the beginning of omnidirectional foreign policy as well. See Naramoto, Eisuke, 'Japanese perceptions on the Arab-Israeli conflict', in *Journal of Palestine Studies* 20.3 (1991), pp.79-88; Fukai, Shigeko N., 'Japanese Politics in Transition?', in *Current History* 84.506 (1985), p.409, and Kume, Ikuo, 'Changing relations among the government, labour, and business in Japan after the oil crisis', in *International Organization* 42.04 (1988), pp.659-687.

“Right. Then I need a governmental statement on it.” Mizuno brought the draft of an official statement to me. In the statement, it was mentioned that Japan would recognize the autonomy of the Palestinian people. I called Prime Minister Tanaka and told him to accept this statement. Tanaka said to me: ‘It’s OK, but get persuaded MOFA Minister Ohira.’ MOFA was reluctant to approve the statement due to the relations with the US. However, we managed to overcome the difficulties and issued the Chief Cabinet Secretary Nikaido’s statement.¹⁷⁹

On 10 December, the Tanaka administration dispatched Deputy Prime Minister and Secretary of the Environmental Agency, Takeo Miki, to eight Middle East countries as a special envoy of Prime Minister Tanaka, offering a package of economic development support amounting to 3 billion US Dollars, which was aimed to lead to a breakthrough regarding the oil crisis.¹⁸⁰ Termed ‘oil-begging diplomacy,’¹⁸¹ as Japan was clearly moving towards a pro-Arab Middle East policy, it nonetheless aimed to maintain its conventional US-conscious and balanced diplomacy. As there were several foreign-affiliated oil wholesale companies on the Japanese market, the Japanese government encouraged the competitiveness of domestic oil (wholesale) companies.¹⁸² In addition, at the beginning of December, ANRE dispatched staff to American Majors to secure the

¹⁷⁹ *Asahi Shimbun*, October 25, 2001 (in Japanese).

¹⁸⁰ Sugihara, Kaoru, and John Anthony Allan (eds.), *Japan in the contemporary Middle East* (Hove: Psychology Press, 1993): pp.47-48.

¹⁸¹ Krupp, Helmar, *Energy politics and Schumpeter dynamics: Japan’s policy between short-term wealth and long-term global welfare*. (New York: Springer Science & Business Media, 1992): p.310.

¹⁸² Yabe, Takeshi, ‘Wagakuni sekiyu kaihatsu no atarashii tenkai (Japan’s new oil development)’, in *Sekiyu gijutsu gyokai shi (Journal of the Japanese Association of Petroleum Technologists)* 43.5 (September 1978), pp.1-10.

provision of fuel for vessels and planes.¹⁸³

In an audience with King Faisal, Miki obtained a promise of exemption from any oil embargo from the Arab countries and the recognition of Japan as an 'Arab-friendly nation.'¹⁸⁴ In return, Miki also promised to provide Saudi Arabia with development aid as requested by the king.¹⁸⁵ In addition, Miki toured Saudi Arabia for three days and held discussions on economy and technical cooperation issues, including:¹⁸⁶

- The conclusion of an economic technical cooperation agreement between Japan and Saudi Arabia;
- The dispatch of 100 Japanese engineers and experts (for technical training) and the hosting of Saudi trainees in Japan within the next five years;
- The supply of machine, engineers and experts to help establish a vocational training centre in Riyadh and a national electronics and technical school in the capital;¹⁸⁷
- The support of the Japanese government to promote Saudi projects in the fields of petrochemical, refinery, steel, and mineral resources;
- The increase of cooperation in the private industrial sector, including the establishment of a truck assembly plant;
- The export of cement and plastic raw materials to Saudi Arabia.

¹⁸³ Kuroda, *op. cit.*, pp.164-165.

¹⁸⁴ BurrIDGE, *op. cit.*, pp.204-206.

¹⁸⁵ Katakura, Kunio, '1973nen no arabu sekiyu senryaku ni taisuru nihon no taiou (Narrow options for Pro-Arab shift: Japan's response to the Arab oil strategy in 1973)', in *Japan Association for Middle East Studies Annual Report* (March, 1986), pp.106-149.

¹⁸⁶ Yorke, *op. cit.*, pp.428-448. and Japan - Saudi Arabia Society, 'Saudi Arabia Information Gate' (in Japanese) (January 1999). Available at: <http://saudigate.jp/> (accessed on December 19, 2015).

¹⁸⁷ This was the first and official request for the cooperation on human resource development to the Japanese government.

The dispatch of special envoy Miki provided Saudi Arabia with the opportunity to end the partial oil embargo against Japan. It was judged as a consequential political decision by the Japanese government.¹⁸⁸ In Japan, the impact of the oil crisis became more serious due to the oil shortage in the domestic market in December. A 50% rise in the price of gasoline, an opportunistic price hike and cornering of certain products occurred frequently in major cities in Japan and inflation boomed, leading to some panic. The government had no choice other than requesting people to save energy and power.

The Arab countries understood the implication of the word 'reconsider' in Japan's statement on 22 November, taking into account a possible diplomatic breaking off with Israel and appreciating Japan's pro-Arab diplomatic attitude. In discussions on the Palestine issue and on a future oil strategy in the OAPEC on 25 November in Kuwait, the decision to recognize Japan as a 'friendly' country was adopted.¹⁸⁹

However, Japan was involved in another controversy with the oil-producing countries. On the occasion of the meeting of the oil ministers of OPEC in Tehran on 22 December, it was reported that Japanese trading companies bought crude oil for almost US Dollar 16.40 per barrel. On 23 December, the Arab oil producing countries held an OPEC meeting and decided to apply an increase of the posted oil price to US Dollar 11.65 from 1 January 1974. In the prevailing climate of uncertainty, the Iranian government announced the adoption of a bidding system

¹⁸⁸ Shiratori, *op. cit.*, p.226.

¹⁸⁹ Kimura, Shuzo, 'Japan's Middle-East policy: impact of the oil crisis', in *Kobe University Law Review* 19 (1985), pp.17-37 (in Japanese).

to sell crude oil, with the fixing of a desirably high price by the suppliers. Oil dealers from around the world rushed into Iran utilizing the bidding system to raise the price. Iran proposed a one-sided contract of conditions for Japanese trading companies, notifying that Iran would sell oil if the company accepts the conditions. Did oil-producing countries target Japan intentionally, knowing the 'oil panic' the country was experiencing? Economically speaking, it was reasonable for oil-producing countries to target Japan as one of the largest oil consumers as well as one of the most powerful global oil purchasers. Furthermore, the fact that a Japanese company accepted the oil price proposed confirmed OPEC's bidding strategy.¹⁹⁰

In Japan, the biggest problem just after the 1973 oil crisis was the securing of a certain quantity of crude oil, required in energy and manufacturing industries. As Japan was not considered to be an Arab-friendly nation initially, many experts anticipated that a reduction in the crude oil supply could not be avoided. Therefore, many manufacturing industries began to ask domestic oil companies to compensate. Executives of leading manufacturing companies in Japan regularly visited domestic oil companies to secure their supply of oil. This peculiar and unusual situation which involved the purchase of crude oil even at a high price was common in Japan during that period. The situation clearly revealed that Japan, without having energy resources, was vulnerable in relation to oil supply.

On 25 December, at an OAPEC meeting held in Kuwait, the Arab oil-producing countries announced the change of oil strategy against Japan and that they would exempt Tokyo from any reduction as a result of positive considerations following

¹⁹⁰ Furuta, *op. cit.*, pp.124-125.

the successive visits of the Japanese Deputy Prime Minister to the Middle East. The communiqué issued after the OAPEC ministerial meeting was as follows:

*The Arab Ministers present noted the changes which had occurred in Japanese policy towards the Arab cause as demonstrated in several ways, including the visit by the Deputy Prime Minister of Japan to certain Arab countries. They also took into account Japan's difficult economic situation and decided to accord it special treatment, excluding it completely from the application of the general cut in oil output in order to protect the Japanese economy and in the hope that the Japanese Government will appreciate this position and persevere in its fair and equitable attitude towards the Arab cause.*¹⁹¹

Years later, then Saudi Oil Minister Ahmed Zaki Yamani noted that 'actually, the oil was enough in the market. The oil shortage was a psychological thing.'¹⁹² This probably happened to Japan, which anticipated a major oil crisis. As a result, Japan's oil import from Saudi Arabia increased by 17% between November 1973 and the end of January 1974, and an 11% increase from the whole Middle East region was reported. Statistics published later showed that a larger volume of oil than actual need was imported to Japan during the period of the oil crisis. The volume of imported oil between October and December 1973 represented a 1.3%

¹⁹¹ Communiqué issued after the OAPEC ministerial meeting, Kuwait, *Centre Virtuel de la Connaissance sur l'Europe (CVCE)* website (Translation of El Moudjahid, 27 December 1973). Available at: http://www.cvce.eu/content/publication/2002/6/12/9e37c930-15cf-4466-9e82-0845b41a46e6/publishable_en.pdf (accessed on December 27, 2015).

¹⁹² Robinson, Jeffrey, *Yamani: The inside story* (Illinois: Fontana Press, 1989): p.214.

increase compared to the same period the previous year. However, a 15% increase would have been expected if the oil crisis had not occurred.¹⁹³ This decline (in volume) was linked to the decrease in domestic oil demand due to excessive economic slowdown caused by both the energy saving policy and the financial restraint policy carried out by the government during the oil crisis period.

Despite the US confidence in the international oil system, the 1973 crisis proved the unreliability of the Majors to act as secure energy suppliers on the international oil market. It showed how the control of the flow of oil could be a political 'weapon' and influence the global economy.¹⁹⁴ It was also an opportunity to reaffirm that nations – instead of a few oligopolistic companies – could assert control of the system.¹⁹⁵ Macro-economically, the 1973 oil crisis pushed Japan and its population, whether they liked it or not, to be more involved than ever in the global economic system.¹⁹⁶ Unintentionally, Japan had been one of the key victims of the oil-producing countries' gamble to use oil as a political weapon – as we will show it now.

2.2.3 (2) Japan in the oil crisis: internal debates and conflicting interests

The oil crisis caused a critical blow to the Japanese economy. Japan recorded an inflation rate of more than 20% in 1974, termed 'a frenzied inflation'.¹⁹⁷ The rapid

¹⁹³ Shiratori, *op. cit.*, p.214.

¹⁹⁴ Licklider, *op. cit.*

¹⁹⁵ Paust, Jordan J., and Albert P. Blaustein, 'Arab oil weapon. A threat to international peace', in *American Journal of International Law*, 68.3 (1974), pp.410-439.

¹⁹⁶ Lesbirel, S. Hayden, 'Diversification and energy security risks: the Japanese case', in *Japanese Journal of Political Science* 5.1 (2004), pp.1-22.

¹⁹⁷ This term was originally named by the then prime minister, Takeo Fukuda. See

economic growth following World War II came to a complete stop. As a result, Saudi Arabia was successful in encouraging Japan's oil-purchasing capacity and in securing economic and technical cooperation by concluding the bilateral agreement providing financial resources to conduct reform of the economic structure.

The question remains as to why the Japanese government took longer than expected to respond to the crisis, to issue a clear statement (22 November) and to dispatch a special envoy to the Middle East (10 December, i.e. almost one month and a half after the first embargo measures taken by the Arab coalition), even though the necessary measures to solve the problem were rather obvious.¹⁹⁸ It can be assumed that the divergences within the Cabinet explain that it took time to prepare an economic cooperation offer package to provide the Arab countries with. Strictly speaking, there was a clear division of roles between government departments. In particular, the scope of action of the Ministry of International Trade and Industries (MITI) covered domestic issues, such as the management of the domestic oil supply and the control on domestic price rise, while the Ministry of Foreign Affairs (MOFA) was responsible for foreign relations with Arab oil-producing countries and for the decision-making process on Middle East issues and policies.¹⁹⁹ However, in the 1970s, due to the critical role of oil

Kobayashi, Yoshihiro, 'Nihon shakai no kyoodootai teki tokushitsu to sono hyooka (The feature of Japanese communal society and its evaluation)', in *Hokkaido University Collection of Scholarly and Academic Papers, Economic Studies* 61.4 (2012), pp.75-95.

¹⁹⁸ Ikeda, Mana, 'Dai ichiji sekiyu kiki ni okeru nihon gaikoo – Arab shokoku to beikoku no hazama de (Japan's diplomacy in the 1st oil crisis – between Arab countries and the US)', in *Kokusai seiji (International relations), The Japan Association of International Relations*, 177 (2014), pp.142-155. Hosaka, 'Japan-Middle East-oil', *op. cit.*, pp.70-71.

¹⁹⁹ He, Liqun, 'Dai ichiji sekiyu kiki zengo no Nakasone Yasuhiro – Shigen Gaiko wo megutte (Yasuhiro Nakasone before and after the first oil crisis – Resource diplomacy)', in *Kokusai koukyou seisaku kenkyuu (International public policy studies), Osaka University Knowledge Archive*, 15 (2) (2011), pp.83-99.

supply for the Japanese economy, a number of powerful ministries, including the Ministry of Finance and the MITI, were actively involved in the government's foreign policy decision-making process. As a result of the competing priorities of the Ministry of Foreign Affairs and the MITI and the resulting struggle for leadership between these two heavy administrations, the Cabinet was divided into two groups. The first group, along the line defended by the MOFA, was insisting on maintaining the alignment of Japan's Middle East policy with the principal logic of Japan-United States anchored relations, while another group, led by the MITI, was insisting on a pro-Arab energy security policy (potentially leading to a downgrading of relations with Israel) in order to secure oil supply.²⁰⁰ Thus, it is reasonable to argue that the Japanese government's late response was a result of both ministries' extensive efforts to approach the Saudi government in parallel, utilizing respective organization's domestic and international channels.

Shiratori goes even further and argues that four political positions can be detected during the 1973 crisis to explain Japan's Middle East policy:²⁰¹

1) a Pro-Arab Middle East policy group:

This position regarded the oil crisis as an opportunity to clarify Japan's pro-Arab Middle East policy. It was supported and led by the Middle Eastern and African Affairs Bureau at the Ministry of Foreign Affairs.

2) a group emphasizing the necessity to secure oil supply:

This position argued that a clear pro-Arab position was unavoidable to respond to the domestic oil panic, and recognized that securing the supply of substantial

²⁰⁰ Japan accepted the establishment of the PLO Office in Tokyo in February 1977.

²⁰¹ Shiratori, *op. cit.*, pp.189-194.

oil volumes was a top priority for the government. This position was represented by MITI Minister Nakasone.

3) *a group in favour of establishing a coordinated international oil market:*

This group argued that the oil crisis would not be sorted out by simply adopting a clear pro-Arab foreign policy, but that the necessity to secure steady oil supply to Japan would be achieved by stabilizing the international oil market and establishing a coordinated authority for it. This was the logic defended by the Agency for National Resources and Energy (ANRE) and some MOFA officials.

4) *A group advocating for prioritizing the relation with the United States as a pivotal ally:*

This position considered that the Japanese foreign policy, which was historically developed around a pivotal relationship with the United States, should not be detrimental to the United States' global policy. It was a tacit general view in most MOFA circles. This position was also defended by most Cabinet members belonging to the Democratic Liberal Party, which had been continuously in power since its foundation in 1955.

These four policy positions usually did not contradict each other. Particularly, the close relation with the United States was, in normal times, commonly recognized among all policymakers to some extent. In particular, many political leaders defended what was called 'Washington Risk'²⁰² or 'dual dependency',²⁰³ i.e. the reliance on the United States for foreign policy and on oil for economic development. Therefore, it is understandable that the decision to announce the pro-Arab clarification of the Middle East policy was a difficult one.

²⁰² Burrige, *op. cit.*, p.38 and Nakajima, *op. cit.*, pp.278-282.

²⁰³ Stone, *op. cit.*, pp.30-31.

Despite MITI Minister Nakasone unequivocally asserting the importance of a pro-Arab diplomacy, a contentious atmosphere could still be found within the ministry. The International Trade Policy Bureau advocated the need to prioritize relations with the United States, while the ANRE, which was insisting on the unique characteristics of the international oil market, objected to Japan's pro-Arab diplomatic stance. On the contrary, the MOFA Economic Affairs Bureau was aware that Japan could play a leading role in assisting oil-producing countries in their effort of industrialization and economic diversification, so it wanted to avoid any irremediable breaking of relations with them.²⁰⁴

As previously mentioned, the lessons learned from the 1973 oil crisis would be used later to create governmental oil reserves, to develop alternative energies, in particular energy-saving technologies, etc. However, the fact that Japan is an energy-scarce nation means that an energy security policy has remained a constant political economy priority for Japanese diplomacy. It was inferred that the essence of the oil crisis was not just a product of the war in the Middle East, but a result of a rapid increase in global oil demand which outweighed the supplying capacity. After the oil crisis, while adopting a clear pro-Arab diplomacy, Japan's basic policy on energy resource diplomacy did not change as they tried to stabilize the international oil market through increased cooperation among oil-consuming countries. Japan participated in the United States-led initiative of the Energy Washington meeting and energy cooperation group in December 1973, while enhancing relations with Arab oil-producing countries. The movement resulted in the establishment of the International Energy Agency (IEA) as an

²⁰⁴ Shiratori, *op. cit.*, pp.216-222.

extra-ministerial department of the Organization for Economic Co-Operation and Development (OECD) in November 1974. Japan and the United States began to cooperate in the new bilateral domain of energy resource diplomacy which led to unprecedented steady relations between United States President Ronald Reagan and Prime Minister Nakasone in the 1980s. This represented an active participation by the Japanese government in the United States' strategy for a new global economic initiative.²⁰⁵

2.3 Development of economic and technical cooperation: 1975 – 1990

The bilateral relations between Japan and Saudi Arabia after 1975, the year when the agreement on economic and technical cooperation was concluded, developed substantially into the manufacturing sector as a result of the oil boom. In the late 1970s, the Saudi government initiated industrial development in the non-oil sector to diversify its oil-dependent industrial structure. This initiative was, in a way, a forerunner of the Saudi Vision 2030. This attempt at industrial diversification, as well as foreign investment and cooperation, was based on the establishment of five-year development plans and viewed as indispensable to securing the Saudi government's economic foundations. The common factor between the Saudi industrial development and foreign investment was that the financial source for both was based on oil revenue, which fluctuated in the international market.

²⁰⁵ Katakura, Kunio, 'Japan and the Middle East: Towards a more positive role', in *Energy policy* 20.11 (1992), pp.1032-1036.

2.3.1 Five-year Saudi economic development plans

The first Five-Year Plan for a short/middle-term national development program was implemented in 1970. The principles of the first development plan (1970-5) were as follows:²⁰⁶

- 1) Maintaining the religious and cultural values of Islam;
- 2) Establishing national and regional defence systems and maintaining domestic security and social stability;
- 3) Sustaining resource development in consideration of long-term oil resource protection, sustainable economic development by increasing oil revenues, and improving social welfare;
- 4) Reducing oil dependency in the Saudi economic structure;
- 5) Developing human resources through educational and vocational training and improving the health care standard;
- 6) Expanding social infrastructure.

This program was designed on the initiative of King Faisal. As the principles and priorities in the development program were reflective of the characteristics as well as some problems of the Saudi economy and society at that time, these are worth analyzing in order to understand the government's political intentions.²⁰⁷ Niblock described the period of 1970-1985 in terms of 'planning for transformation'.²⁰⁸ The initiatives in the plan were primarily focused on the

²⁰⁶ El Mallakh, Ragaei, *Saudi Arabia: Rush to development: Profile of an energy economy and investment*. (Oxford: Routledge, 2015): pp.145-146.

²⁰⁷ Ramady, *op. cit.*, pp.26-27.

²⁰⁸ Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.52-93.

reinforcement of tribal solidarity as the kingdom was still in the process of consolidating a consciousness for national unity and citizenship.²⁰⁹ On the other hand, the initiatives also included profound attention to security issues and an agenda of raising national awareness of the need to end oil dependency within the economic structure.

The ratio of national budget allocation for the first Five-Year Development plans was set in consideration of the priorities of national strategies in human resource development, social development, and economic resources development. For example, the ratio of social infrastructure and economic resources development compared to the total budget allocation in the Second Five-Year Development Plan introduced in 1975 was appropriately 80%. However, in the Fourth Plan (1985-90), the priority of the national strategy was clearly replaced by human resource development instead of social infrastructure.²¹⁰ Furthermore, the Saudi government allocated 18.4% and 33% of the total budgets of the Third and Fourth Plans (in both cases, 115 billion Saudi riyals) to human resource development in order to increase Saudi nationals' employment opportunities. In comparison, the government assigned 9.8% and 17.7% of the total budgets of the Third and Fourth Plans (in both cases, 61 billion Saudi riyals) to social development, such as education and health care services.²¹¹

In addition, the Saudi government had to set up incentives for promoting foreign investment and technologies. In particular, three industrial advancements, which

²⁰⁹ Kostiner, Joseph, 'Transforming dualities: tribe and state formation in Saudi Arabia', in Khoury, Philip S., and Joseph Kostiner (ed.), *Tribes and state formation in the Middle East* (California: University of California Press, 1990): pp.226-232.

²¹⁰ Ramady, *op. cit.*, pp.17-27.

²¹¹ These figures indicate actual expenditures at the end of each economic plan (*Ibid.*, pp.23-25).

were an integral part of the Five-Year Plans, were attractive for foreign companies during this period (1975-90). Firstly, in September 1975, the Saudi government established a state-of-the-art industrial complex, the strategic Royal Commission for Jubail and Yanbu. This organization, which was given the responsibility for planning and implementation of necessary infrastructure for specialized industrial cities with independent authorized budgets and management structures, selected the areas of Jubail (in the Eastern Province) and Yanbu (on the Red Sea) due to their geographical advantages. In both industrial cities, which were two of the world's largest industrial complexes,²¹² oil refineries, petrochemical plants, liquefied petroleum gas (LPG) plants, desalination plants and power generation facilities were developed within ten years, including residential areas, healthcare facilities and commercial centres too.²¹³ The RCJY was established under the leadership of Sa'ud bin 'Abd Allah bin Thunayan Al Sa'ud who had studied civil engineering at King Saud University and successively chaired SABIC Americas, Inc. and the Utility of Water and Electricity Company in Jubail and Yanbu (Marafiq).²¹⁴

Secondly, the Saudi Arabian Basic Industries Corporation (SABIC), a

²¹² The respective areas were 924 km² for Jubail and 188km² for Yanbu.

²¹³ 'Jubail and Yanbu Review – Huge Surge of Project', *Oil & Gas News* (2013). Available at: http://www.oilandgasnewsworldwide.com/Article/37290/Huge_Surge_of_Projects (accessed on March 13, 2016).

²¹⁴ Hertog, Steffen, 'Lean and mean: the new breed of state-owned enterprises in the Gulf monarchies', in Seznec, Jean-François, and Mimi Kirk (eds.), *Industrialization in the Gulf: A socioeconomic revolution* (Oxford: Routledge, 2010), pp.17-29. RCJY installed new wastewater reuse systems and advanced desalination plant. The author visited the sea-water desalination plant in Yanbu in 2014 with Japanese water utility engineers. Marafiq engineers, mostly non-Saudis, paid keen interests in the new energy-saving water re-use technology from Japan. Al-A'ama, Mohammad S., and G. F. Nakhla, 'Wastewater reuse in Jubail, Saudi Arabia', in *Water Research* 29.6 (1995), pp.1579-1584. and Khawaji, Akili D., Ibrahim K. Kutubkhanah, and Jong-Mihn Wie, 'Advances in seawater desalination technologies', in *Desalination* 221.1 (2008), pp.47-69.

governmental developer as well as a manufacturer of value-added industrial products and materials based on hydrocarbon, mineral and petrochemical products, was established in 1976. The objective of SABIC's establishment was to further develop the petrochemical industry while promoting the use of petroleum-associated gas. With the increasing economic and strategic importance of Saudi Arabia in the region as a result of the oil crisis in 1973, global petroleum and petrochemical companies, such as Shell, Mobile, Exxon, Dow Chemicals and the Mitsubishi Group, established joint-venture companies with SABIC in the early 1980s in both Yanbu and Jubail in order to manufacture miscellaneous petrochemical products.²¹⁵ For foreign companies, the establishment of joint venture companies involved a strategic approach to the market in Saudi Arabia and the region. The joint venture businesses set up in Saudi Arabia, with the advantage of access to cheap raw materials, could maintain international competitiveness and the petrochemical industry has grown into an exporting industry through this scheme. The management and jurisdiction of the joint ventures were managed by the Saudi side, while sales and marketing were managed by foreign-owned enterprises.²¹⁶ Two of these joint ventures companies, Saudi Methanol Company and Eastern Petrochemical Company,

²¹⁵ Among them are: Saudi Iron & Steel Company (HADEED), Saudi Methanol Company (AR-RAZI), Eastern Petrochemical Company (SHARQ), National Industrial Gas Company (GAS), National Plastic Company (IBN HAYAAN) and National Chemical Fertilizer Company (IBN AL-BAITAR). In addition to the above, nine petrochemical, fertilizer and fibre companies were created (Source: SABIC, 'SABIC Global Entities. A list of SABIC-affiliated and joint venture companies' (2016). Available at: <http://www.sabic.com> [accessed on February 7, 2016]).

²¹⁶ Fukuda, Sadashi, 'Dai 1 sho Saudi Arabia ni okeru Seizougyou no hatten to kokusai tenkai SABIC to Savola (Chapter 1. Development and international expansion of manufacturing sector in Saudi Arabia: SABIC and Savola)', in Tsuchiya, Kazuki (ed.) 'Chuuto kigyo no kokusai jigyou tenkai (Expansion of international business by the companies in the Middle East)' *Research Paper. Japan External Trade Organization* (March 2011), p.9.

include participation by Japanese companies. This became a successful business model of Saudi industrial development.

Thirdly, the establishment of industrial parks throughout the country in order to fulfil the gap between the developed and underdeveloped regions was planned. These three industrial developments proved that the petrochemical business in Saudi Arabia had sufficient marketability to attract investment by other Japanese companies. The domestic petrochemical development resulting from the oil boom promoted a strengthening of relations between Saudi and Japanese companies. This led to the establishment of vocational training institutes, regular business seminars, cultural exchanges, and strengthened Japanese imperial and Saudi royal relations. This phase represented a nascent stage for formulating a prototype of Saudi – Japanese multi-layered reciprocal relations. As such, the period between 1975 and 1990 was particularly significant.

2.3.2 Linchpin of Saudi – Japan economic cooperation

2.3.2 (1) Conclusion of the 1975 agreement

The need for practical economic and technical cooperation had been recognized by the two governments in the early 1960s already. Official negotiations had started during a visit of Minister of Transportation Prince Sultan bin ‘Abd al-‘Aziz al-Sa‘ud to Tokyo in October 1960. In the discussions, Sultan had asked the Japanese government for cooperation on four business projects in the fields of telecommunications, natural gas, steel, and fishery. The Japanese government expressed a positive interest in these projects and dispatched an expert team to

carry out feasibility studies. However, this did not lead to actual realizations.

At the beginning of the 1970s, the possibility to develop technical cooperation between the two countries was revived. A large-scale business mission headed by Sohei Nakayama, chairman of Overseas Technical Cooperation Agency, an organization previously attached to the Japan International Cooperation Agency (JICA), was dispatched in January 1971 to extend relations with Middle Eastern countries, mainly Saudi Arabia. Japan recognized the potential for substantial economic cooperation with Saudi Arabia during this visit. King Faisal visited Japan as the first state guest from an Arab country in May 1971 and had an audience with the Emperor of Japan; he also met government leaders and spoke in support of a rapid conclusion of the economic technical cooperation agreement. Japan responded quickly to this request, proposing a draft agreement to the Saudi government. On 1 March 1975, the 'Agreement on Economic and Technical Cooperation between the Government of Japan and the Government of the Kingdom of Saudi Arabia' was signed by Foreign Minister Miyazawa and State Minister Hisham Nazer. In addition, accompanying official documents for the implementation of the agreement were also completed. The agreement came into effect in May 1975 (for the full text, see Appendix 1).

The goal of the agreement was to promote cooperation in all possible economic and technological fields, as stated in its Article 1. Particularly, it encouraged the establishment of joint venture companies between the two countries, Japanese investments in petrochemical and other fundamental industries, the transfer of advanced technology from Japan as well as the provision of Japanese technical experts and engineers to Saudi Arabia and training opportunities in Japan (Article 2). In addition, the agreement included the establishment of a joint committee

consisting of government representatives from the two countries to establish a development and implementation plan for the effective enforcement of the agreement (Article 6).²¹⁷ It must be noted that security cooperation was not included at this stage.



Signing ceremony of the 'Agreement on Economic and Technical Cooperation' between Saudi Minister of the Ministry of State and Planning, Mr. Hisham Nazer, and Japanese Minister of Foreign Affairs Mr. Kiichi Miyazawa (Tokyo, March 1975).

Source: Archives of the Royal Embassy of Saudi Arabia in Japan

The first joint committee was held in Riyadh in January 1976. While Ministry of International Trade and Industry (MITI) Minister Toshio Kohmoto represented Japan, State Minister Hisham Nazer and Minister of Industry Ghazi 'Abd al-Rahman al-Gosaibi represented the Saudi government. The joint committee met

²¹⁷ Ministry of Foreign Affairs of Japan, 'Tenth meeting of the Saudi – Japanese Joint Committee (Tokyo, May 10, 2010), Summary of the Record of Discussion' (in Japanese) (May, 2010). Available at: http://www.mofa.go.jp/region/middle_e/saudi/summary100510.html (accessed on December 27, 2015).

regularly afterwards. The tenth meeting of the joint committee was held in Tokyo in May 2010, with Minister of Economic and Planning Khalid bin Mohammad al-Gosaibi representing Saudi Arabia while both MOFA and METI ministers attending for Japan. These regular meetings have been the occasion to discuss fields of cooperation ranging from energy, economy, trade and technical cooperation to cultural exchange, particularly educational support, vocational training, peaceful use of atomic energy, medium and small-sized business development, cooperation on saving and renewable energy technologies, without forgetting the negotiation of the Japan – Gulf Cooperation Council (GCC) free trade agreement (FTA).

Simultaneously, through increasing exchanges of official visits, Japan actively encouraged economic and technical cooperation with other Middle East countries. Japan reached a similar agreement with Iraq in August 1974, and exchanged notes of official credits with Egypt in July and with Jordan and Algeria in December 1974.²¹⁸

2.3.2 (2) Saudi Arabia's new Asian diplomacy under King Fahd

During the seven-year reign of King Khaled (1975-82), there was no significant change in Saudi policy towards Asia. At home, he pursued the implementation of Faisal's politics of modernization. The Saudi government finally took full control of Aramco by 1980, acquiring a 100% stake in the company. King Khaled played

²¹⁸ Ministry of Foreign Affairs of Japan, 'Gaiko (Diplomatic) Bluebook 1974, Chapter 3. Diplomatic efforts made by Japan, Section 1. Promotion of relations with other countries, 6. Middle and Near East', (in Japanese) (March 1, 1974). Available at: <http://www.mofa.go.jp/policy/other/bluebook/1974/1974-3-1.htm> (accessed on December 27, 2015).

a key role in the creation of the GCC, which was intended to reinforce solidarity between the six monarchies of the Arabian Peninsula in the field of politics, economy and security during the critical times of the Iranian Revolution and the Iran-Iraq war (1980-1988). The GCC would later create the 'Peninsula Shield' military force in 1984 in order to cope with the protracted Iran-Iraq war influences and conclude the 'GCC Defence Pact' in December 2000.

In June 1982, when King Khaled died, King Fahd (1982-2005) acceded the throne and Prince 'Abd Allah became Crown Prince. King Fahd had held the positions of Interior Minister between 1962 and 1975 and Second Deputy Prime Minister between 1967 and 1975. When appointed Crown Prince in 1975, he took leadership in the government while King Khaled was physically debilitated. In 1992, King Fahd introduced a new Basic Law for the System of Government, which outlined the Saudi government's goals and responsibilities.²¹⁹ In 1993, he established the National Consultative Council (*Majlis al-Shura*). In the same year, new bylaws were promulgated to clarify the administration of provinces. These reforms were initiated after intense internal pressure from domestic reformists and from outside, particularly from the United States.

Close political cooperation with the United States was the distinguishing feature of Saudi diplomacy and national security policies in King Fahd's era – especially given the volatile political situation in the Middle East in the 1980s and the 1990s. Due to the perceived threat from neighbouring countries, military cooperation between the United States and Saudi Arabia was extended to include

²¹⁹ Dekmejian, R. Hrair, 'The rise of political Islamism in Saudi Arabia', in *Middle East Journal* 48.4 (1994), pp.627-643 and Al-Fahad, 'Abd al-'Aziz H., 'Ornamental constitutionalism: the Saudi basic law of governance', in *Yale Journal of International Law* 30 (2005), pp.376-396.

support for Islamic Jihadist groups in Afghanistan. King Fahd took the initiative in the Arab-Israel peace process in 1981. This initiative became the basic model for 'the 'Abd Allah Plan' in 2002, which was 'endorsed by Arab states, supported by the United States and reconsidered by Israel.'²²⁰

While Saudi Arabia's Look-East policy was introduced during the reign of King 'Abd Allah's (2005-2015), on the occasion of his official tour to China and India in 2006, it can be analyzed as a natural continuation of efforts initiated since the 1980s and aimed at developing economic relations, Saudi Arabia looking at Asian economic prosperity and already anticipating sustainable demand of oil. Indeed, during King Fahd's reign, Saudi Arabia's diplomacy towards Asia experienced a turning point. Diplomatic relations with China were established in 1990. Foreseeing China's economic expansion, while maintaining close economic relations with Japan and South Korea, the first decade of King Fahd's era marked the beginning of a rebalancing of the Saudi foreign policy in Asia, based on the analysis of the balance of power in the region.

Because the Saudi government realized the need to bring a change of existing oil-centred economic structure, it was a spontaneous diplomatic choice to diversify the policy towards Asian countries. The Saudi-Asia relations were based on economy, while it was anticipated to evolve into defence and security. From 1975 to 1990, 12 Japanese companies were successful for establishing joint venture companies in Saudi Arabia (as detailed in the following section). The oil price was relatively stable at around 20 US Dollars per barrel despite temporary increase at the timing of Iraq's invasion of Kuwait in 1990. Japanese companies

²²⁰ Gawdat Bahgat, 'Saudi Arabia and the Arab-Israel peace process', in *Middle East Policy*, XIV.3 (2007), pp.49-50.

found economic feasibilities in these steady oil price trends, and in particular, large-scale investment projects in the petrochemical field were realized.

The average Saudi Arabia's GDP growth in the 1980s and 1990s was 0% and 1.5% respectively while East Asia's average were 7.9% and 7.2%, respectively. The centre of global economic growth moved to the Asian region. It was understandable that the Saudi government was shifting the direction of pursuit of foreign policy and economic interests to East Asia in the time when the economies of East Asia region increased. For example, construction of chemical plants in Jubail in Korea and Japan (1998) assumed exports of chemical products to Southeast Asia. At the same time oil demand in the Asia region accounted for 20% of the world.²²¹

2.3.3 Saudi – Japan joint venture companies

Ten Saudi-Japanese joint venture companies, mostly in manufacturing industries, were established between 1975 and 1990 along the lines defined by the 1975 agreement on economic and technical cooperation (see below Table 2). These limited liability companies (LLC) have been providing services and manufacturing products on the Saudi market. In particular, two petrochemical companies, Saudi Methanol (AR-RAZI) and Eastern Petrochemical (SHARQ), represent a successful business scheme between Japan and Saudi Arabia (for more details, see chapter 4).

²²¹ Cordesman, *op. cit.*, p.498.

Table 2. List of 10 Saudi-Japan joint venture companies, 1975 – 1990

Year	Name	Field	Japanese Company	Saudi Company	Million Saudi Riyals	City
1975	Chiyoda Petrostar	Plant construction, engineering	Chiyoda Engineering	Petrostar Ltd.	7	Khobar
1978	National Pipe Company	Manufacturing pipes	Nippon Steel and Sumitomo Metal	Tymour Alireza etc.	200	Khobar
1979	JGC Arabia Ltd.	Plant construction engineering	JGC	Eben Saleh Est.	4	Khobar Jeddah
1980	Saudi Methanol (AR-RAZI)	Manufacturing Methanol	Japan – Saudi Arabia Methanol	SABIC	259	Jubail
1980	Mitsubishi Electric Saudi	Elevator installation & maintenance	Mitsubishi Electric	Omar K. Alesayi	8	Riyadh Jeddah
1980	NEC Saudi Arabia	Telecommunications equipment sales	NEC	Xenel Industries Ltd.	4	Riyadh
1981	Fujitec Saudi Arabia	Escalator installation, maintenance	Fujitec	Abdul Ghaffar Jamjoom	1	Jeddah
1981	Eastern Petro-chemical (SHARQ)	Polythene/Ethylene manufacturing	Saudi Petrochemical Development Co. (SPDC)	SABIC	1890	Jubail

1981	Saudi Toyo Eng.	Industrial facilities construction and engineering	Toyo Engineering and Mitsui Co.	Khalifa A. Al-Gosaibi Holding	5	Khobar
1982	Marubeni Saudi Arabia	Trading	Marubeni Co.	Abdul Ghaffar Jamjoom	7	Riyadh

Source: Japan External Trade Organization (JETRO)

The establishment of these joint venture companies between 1975 and 1990 was significant in terms of laying the foundation for bilateral economic relations. Joint venture companies related to the oil and petrochemical industry, including pipe manufacturing companies, were established as a result of the oil crisis as mentioned above. These companies were charging ahead of other joint ventures leading to multi-layered Saudi-Japanese relations, and they represented a step toward further expansion of joint venture businesses in later phases of the bilateral relations. The fact that they continued joint venture businesses and accumulated business know-hows in Saudi Arabia was valued by both governments, while facing various problems such as differences in business practices, the securing of labour, and assessment of marketability – as will be shown later.

Having experienced the oil crisis in the 1970s, Japanese leaders aimed to expand Saudi-Japanese joint venture businesses but also started taking concrete measures to create an oil reserves policy as an oil importing country. It was both a sign of a pressing sense of crisis and a national strategy to maintain economic growth. Two different oil reserves systems were established. The first one was a

governmental oil reserves, funded and managed by the state (based on tax revenues), in order to cope with emergency situations. The other was a 'corporate reserve system', imposing private oil companies to reserve a certain level of oil, utilizing their own facilities and expenses.

At the International Energy Agency conference in 1984, coordinated emergency response measures (CERM) were agreed. In the event of an emergency disruption of oil supply, the IEA member states²²² agreed to cooperate to release the oil reserves. The purpose of the agreement of CERM was to prevent or, at least, calm oil market panic at the early stage of emergency, such as disruption of petroleum supply. CERM was put into effect by IEA as a coordinated energy response contingency plan in the Gulf Crisis in 1991; Saudi Arabia and other oil-producing countries cooperated in stabilizing the balance of oil demand and supply.²²³ This system has been playing a critical role in Japan's energy security.

2.3.4 Vocational training, cultural exchanges and royal visits

The Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT) has been leading Japan's international education cooperation. The driving force behind it has been that the idea that the Japanese experience could

²²² The 21 IEA member states at that time (1984) were: Original members: Austria, Belgium, Canada, Denmark, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, Norway (under a special Agreement), Spain, Sweden, Switzerland, Turkey, United Kingdom, United States and Greece (Joined:1976), New Zealand (1977), Australia (1979), Portugal (1981)

²²³ Yokobori, Keiichi, 'Kokusai Energy Kikan (IEA) ni okeru Sekiyu Kinkyuji Taisaku wo meguru Ho-teki shomondai (Legal problems on emergency countermeasures of oil supply in International Energy Agency (IEA))', in *Teikyo Ho-gaku (Teikyo Law Studies)* 25.2 (2008), pp.33-36.

be utilized for capacity-building in developing countries.²²⁴ In particular, the MEXT has been working to promote international collaboration and to accelerate Japan's cooperation with foreign countries in relation to human resource development.²²⁵ These features matched UNESCO's actions announced during the World Conference on Education for All in 1990.²²⁶ In particular, MEXT's international cooperation in industrial education in conjunction with Japan's vocational technical education systems has always featured high among Japan International Cooperation Agency (JICA) projects. Founded in 1974 as a governmental organization for development cooperation, the Japan International Cooperation Agency (JICA) is tasked to contribute to the promotion of international cooperation as well as the development of Japanese and global economies by supporting socioeconomic development, capacity-building, and economic stability in developing regions.²²⁷ JICA started its official activities in Saudi Arabia in 1990, at the Embassy of Japan in Riyadh, as an annex organization following the 1975 Agreement on Economic and Technical Cooperation between the two countries (the details of JICA's achievement are

²²⁴ Ministry of Education, Culture, Sports, Science and Technology (MEXT) of Japan, 'History of 100-year educational systems' (in Japanese) (September 5, 1981). Available at: http://www.mext.go.jp/b_menu/hakusho/html/others/detail/1317884.htm (accessed on March 25, 2016).

²²⁵ *Ibid.*

²²⁶ Inter-Agency Commission (UNDO, UNESCO, UNICEF, WORLD BANK) for the World Conference on Education for All, 'Meeting Basic Learning Needs: A Vision for the 1990s' (New York: UNICEF, 1990): pp.62-72.

²²⁷ In particular, JICA is specialized in the fields of: training in Japan; expert dispatch (technical transfer, advisors, training in human resource development; development survey (master plan, feasibility study etc.); and investment-related activities in 18 different fields of activities (education, health, water resources/disaster management, governance, peace-building/social security, transportation, ICT, natural resources and energy, economic policy, private sector development, agricultural/rural development, nature conservation, fisheries, gender and development, urban/regional development, environmental management and evaluation.

described in chapter 3).

In this context, the establishment of the Riyadh Electronics Institute (REI) in September 1993, relying on Japanese cooperation, was a benchmark educational project in the kingdom. The REI's target was to train electronics technicians through a three-year technical high school programme. The idea of the Institute was initially discussed in 1974. Even if it took approximately twenty years to officially establish the institute officially, Japan's cooperation with REI lasted until July 1997 and can be considered as a success. It materialized with the dispatching of 27 long-term and 56 short-term Japanese experts to Saudi Arabia and the invitation of 34 Saudi trainees to Japan. Technology transfer of high-school industrial education pedagogy especially peaked after 1987.²²⁸ Following a positive evaluation by the Saudi government, REI was promoted to be an electronics department inside the Riyadh Technical College in 1997. The Japanese government (through JICA) transferred the REI project to a new scheme of cooperation using upgraded college-standard curriculum and educational materials. During this new project, JICA dispatched Japanese experts to Riyadh and received Saudi trainees in Japan during a four-year cooperation period from April 1997.

The 1970s and 1980s were also marked by the emergence and flourishing of bilateral exchanges in the cultural and sports fields.

In 1976, six Japanese students were registered at the King Sa'ud University in Riyadh as part of the Saudi government's student exchange programme. This

²²⁸ Iwamoto, Muneharu, 'Saudi Arabia kara kikoku shite – Kogyo kyoiku ni okeru kokusai kouken to kokou-daigaku renkei no susume' (Return from Saudi Arabia – International contribution in industrial education and recommendation of cooperation between high-schools and universities)', in *Kogyo kyoiku shiryō (Industrial Education Material)*, *Jikkyo shuppan* 293 (January 2004), pp.1-6.

was followed by the same number of registrations of Japanese students at the Islamic University in Madina, at Umm Al-Qura University in Macca and at Imam Muhammad bin Sa'ud University in Riyadh for the study of Islam and the Arabic language. On the other hand, a total of 149 Saudis went to study in Japan between 1973 and 2000 through the AOC scholarship. Saudi Aramco further established a studying-abroad program in Japan and has been dispatching several Saudi students annually since 1997. In addition to the above, a Japanese government scholarship programme was created and has helped Saudi students to acquire a post-graduate degree at Japanese universities, mainly in the fields of science technology, IT, mechanical engineering and seismology.²²⁹

Moreover the Saudi government built in 1982 the Arab Islamic Institute in Tokyo, officially registered as the 'Imam Muhammad ibn Sa'ud Islamic University Branch', as an academic research institute for the study of Islam. This research institute belongs to the Saudi Arabian embassy in Japan and is in receipt of Saudi government fund. Managed by the Imam Muhammad bin Sa'ud Islamic University, it was the sixth such institute established in the world to teach Arabic, organize Islamic seminars, and encourage mutual understanding.

These cultural exchanges were accompanied by initiatives of cooperation in sports. For eight years, between 1986 and 1994, Japanese judo Master, Mr. Toriumi, was based in Riyadh and other major Saudi cities to teach judo principles to the Saudi youth. The first four years were financially covered by the Saudi General Presidency for Youth Welfare while the government-funded Japan Foundation covered the last four years. Judo technique gradually penetrated into

²²⁹ The author was one of the examiners of selecting national scholarship students at the embassy of Japan in Riyadh between 2003 and 2006.

Saudi society as the Saudi police department adopted judo as one of its training subjects. Prior to this, in 1961 and 1962, Japanese Judo masters had been dispatched by the Japanese government to the Firah School, a private educational institute administrated by Jeddah-based business conglomerate Alireza Group. It had been a pioneering project for the spread of judo philosophy in Saudi society.

In parallel, a sports mission was dispatched by the Japanese government in November 1986. It consisted of Japanese Diet members, football teams, volleyball teams, karate masters, judo masters, among others. They carried out demonstrations and friendly matches in Saudi Arabia. Other sports exchange missions followed later. For instance, in February 1993, a martial arts mission including judo, karate, kendo, and aikido was dispatched, as well as a karate masters' mission in November 1994 and a Japan Judo Federation mission in March 1997.²³⁰

The 1970s and 1980s were a particularly prolific period for communications between and official visits of Saudi royals and the Imperial house of Japan.

King Faisal was the first Arab head of state to visit Japan. He arrived in Tokyo on May 20, 1971. In the evening of the same day, Japanese Emperor Hirohito hosted a court dinner meeting, attended by both Saudi and Japanese officials including other Japanese imperial family members. In his dinner speech, Emperor Hirohito welcomed King Faisal's visit and expressed his confidence that the visit would encourage further strengthening of mutual understanding and cooperation between the two countries. In response to this, King Faisal

²³⁰ The author met several Saudi officials who experienced judo and karate lessons by the Japanese masters in these programmes.

expressed his appreciation and emphasized the necessity of, firstly, promoting economic and technical cooperation with Japan in order to help economic development in Saudi Arabia, and of, secondly, concluding the economy-related agreement as early as possible. King Faisal returned home after having had meetings with the Japanese Prime Minister, the Chairman of the Japan Business Federation and other Japanese political and business leaders, but also having spent time at the Islamic Mosque in Tokyo, and visited the factories of Sony and Ishikawajima-Harima Heavy Industries Co. Ltd.

Emperor Hirohito encouraged comprehensive mutual understanding and strengthen bilateral cooperative relations, while King Faisal focused more specifically on promoting economic and technical cooperation with Japan. It can be concluded that cooperation with foreign countries was viewed as crucial for Saudi economic development. Economic cooperation was the anchor of a steady bilateral relationship between the two countries, however, royal and imperial communications were accelerated to consolidate their and undeniably helped develop multi-layered relations between the two countries.

On February 28, 1981, Crown Prince Akihito, who became Emperor in 1990, and his wife Princess Michiko arrived in Riyadh. It was the first official visit to Saudi Arabia by Japanese imperial family members. They had an opportunity to meet with King Khaled, Crown Prince Fahd, other principal Saud family members, and Saudi government officials. As King Khaled was staying in the desert, Crown Prince Akihito was transported with a special government aircraft to the northern part of Riyadh for an audience with the king in his traditional tent. Crown Prince Akihito had lunch with then Governor of Riyadh Prince Salman.



Crown Prince Akihito and King Khaled in February 1981 in the northern desert of Riyadh
(Source: Archives of the Royal Embassy of Saudi Arabia in Japan)

The mutual visits of the Saudi royal and Japanese imperial families in 1971 and 1981 took place before and after the conclusion of the economic technical cooperation agreement in 1975. This royal and imperial diplomacy can be closely linked to the foundation of Saudi – Japanese economic relations. These visits indeed played a major role in fostering mutual trust between the two countries and this 15-year period was significant as a period of consolidating bilateral relations.

2.4 Chapter conclusion

The history of Saudi – Japanese relations is originally rooted in the Hajj pilgrimage by Japanese Muslims in the 1900s. The fact that the beginning of bilateral relations was based on Islam rather than politico-economic activities was

significant in terms of assuring enhancement of diplomatic relations with Saudi Arabia without any political discomfort. Chapter 2 exemplified two out of four phases of Saudi-Japanese relations by explaining the features of diplomatic relations between 1955 and 1990. The first phase was the period from 1955 through 1975, marked by Japan's first oil development and the 1973 oil crisis. The first national oil development, symbolizing this period, was the unrelenting pursuit of securing oil resources by the Japanese private company, Arabian Oil Company (AOC), at the al-Khafji oil field along the border between Saudi Arabia and Kuwait. For energy-scarce Japan, the securing of oil resources was indispensable for economic growth after the Second World War and was the priority for domestic industries. The substantial economic relations began through this oil development project.

Through involvement in the first oil crisis in 1973, the Japanese government achieved its largest political shift of foreign policy toward the Middle East since 1945. This diplomatic clarification of Pro-Arab foreign policy paved the way for a new direction of Japan's Middle East policy, which is still relevant in today's diplomacy. Japan established several governmental organizations after 1974 in order to enhance multi-layered economic relations with the Middle Eastern countries and to promote new energy-saving technologies. In 1971, King Faisal's official visit to Japan as the first Arab monarch clearly showed the recognition by Saudi Arabia of its interests in Asia.

The second phase (1975-1990) was represented by the reaching of the agreement on economic and technical cooperation in 1975 which materialized the two countries' initial but intensive economic relations within a short period. Based on this agreement, bilateral economic activities expanded. Specifically, ten

joint venture projects, mainly in the petrochemical sector, were established as part of the first phase economic scheme in the kingdom. The Japanese government encouraged the joint venture companies' technology transfer business model and encouraged Saudi youths' employment through joint venture companies. In addition, upon the request from the Saudi government, the Japanese government initiated the Riyadh Electronics Institute (REI) which was the first bilateral human resource training project and was actually established in 1993. The Saudi government encouraged the domestic industry's basic capacity-building and competitiveness, relying on consecutive five-year development plans, however, their demand was high for appropriate foreign cooperation to diversify their petrochemical-anchored industrial structure. The Japanese government was able to offer this development cooperation. The 1975-1990 period was thus particularly significant for both countries because it formed and strengthened the basic bilateral relations and substantiated reciprocal economic cooperation which laid the foundation for the next two decades' extensive and multi-layered bilateral relationship. Not only economic catalysts, such as the establishment of joint venture companies, technical institutes, business councils, and the JICA office in Riyadh, but also cultural and sports exchanges were critical foundations for how bilateral relations developed in the 1990s and 2000s.

Chapter 3: Enhancement of multi-layered relations: 1990 – 2013

3.1 Introduction: Saudi economic reform and Japanese collaboration

Throughout the history of economic relations between Japan and Saudi Arabia since 1955, the two decades following 1990 represented a decisive step forward. The Saudi economy pushed its development forward steadily, while being affected by fluctuating oil prices.²³¹ The Saudi government orchestrated a new economic framework to promote the introduction of foreign investment as well as human resource development in order to create, in official terms, a socially-balanced and diversified economy. More concretely, the promotion of economic privatization and liberalization of state-owned companies were advocated in order to diversify the oil-anchored domestic industry, so that private companies could allegedly utilize their potential business efficiency and capabilities.²³²

Chapter 3 analyzes the implication of joint venture projects for bilateral relations and the achievement of cultural exchanges and vocational training between 1990 and 2010, explaining why many Japanese and Saudi companies could establish joint venture companies in this period and why the experience of Japanese vocational training programmes proved effective in the labour market in Saudi Arabia. The answers to these questions are key themes in this chapter as part of analysing the Japan-Saudi Arabia relations. This chapter also summarizes characteristics of the Saudi economy and industrial structure and explains how

²³¹ Elder, John, and Apostolos Serletis, 'Oil price uncertainty', *Journal of Money, Credit and Banking* 42.6 (2010), pp.1137-1159.

²³² Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.83-93.

the Japan government as well as companies approached the process of industrial diversification in a framework of reciprocal texture.

During almost twenty years of economic relations between 1990 and 2013, many Japanese companies, mainly in the manufacturing industry, established joint venture companies in Saudi Arabia despite its own downward economic trend and that 'the kingdom could no longer count on a continuing upward of drift in oil price'²³³ in the period between 1985 and 2000. Japanese companies introduced a sort of 'Japanese style', called also 'All Japan' business initiative,²³⁴ in the Saudi Arabian market in that period, heralded by the political commitment of the Japanese government. The Japanese-style business incentive means a business approach by the formation of government and private companies in difficult, but important, markets for energy-scarce Japan, such as Saudi Arabia, Iraq, Iran and Africa. As the first step, the Japanese government initiates and creates comprehensive business framework by concluding a government-to-government agreement, by establishing a public-private business committee, or by providing development aid schemes followed by private companies' joint venture manufacturing businesses. It also supports business activities by providing them with governmental investment and trade insurance scheme.²³⁵ A survey by the governmental Japan External Trade Organization (JETRO) in 2016

²³³ *Ibid.*, p.94.

²³⁴ Japan Cooperation Centre for the Middle East (JCCME), 'A presentation material by Ministry of Economy, Trade and Industry (METI), Japan titled, "Economic situation of the Middle East and North Africa and METI's policy",' (in Japanese) (August 2013). Available at: http://www.jccme.or.jp/japanese/seminar_13/pdf_0825/01.pdf (accessed on March 3, 2016).

²³⁵ See Calder, Kent E., *Strategic capitalism: Private business and public purpose in Japanese industrial finance*. (New Jersey: Princeton University Press, 1995): pp.134-136; and Chen, Min, *Asian management systems: Chinese, Japanese and Korean styles of business*. (Hampshire: Cengage Learning EMEA, 2004): pp.141-155.

showed that many Japanese companies in the Middle East and North Africa had strong indications of business expansion and promotion of local employees, while expecting substantial business support from the Japanese government. Specifically, the requirements on the government by private companies included; 1) a conclusion of bilateral economic agreements, 2) funding support such as flexible adaptation of investment finance and export insurance, and 3) requests for improvement or relaxing of miscellaneous rules and regulations, such as simplification and smooth acceleration of custom clearance procedures in the market.²³⁶ In addition, the trading-oriented business relations between Japan and the Gulf Cooperation Council (GCC) countries were significant throughout the 1980s and 1990s in terms of hydrocarbon energy trading and security.²³⁷ Similarly, the economic entities in Saudi Arabia also needed governmental initiative as ‘the primary engine of growth’ in order to enhance business relations with foreign countries.²³⁸

At the same time, both Saudi and Japanese governments increased official visits to achieve well-balanced and solid diplomatic relations. Niblock explains that ‘after 1985, the [Saudi] government was no longer concentrating on mega-projects amid at economic and social transformation’.²³⁹ Given the economic situation in the kingdom and that the Saudi government was looking for foreign know-how and cooperation to achieve further development, the Japanese

²³⁶ Japan Cooperation Centre for the Middle East, ‘Report on Japanese companies’ activities in the market of the Middle East and Africa’ (in Japanese) (February 2016). Available at: <https://www.jetro.go.jp/news/releases/2016/258c29ac863240f1.html> (accessed on March 3, 2016).

²³⁷ AlShamsi, Shaykha, and Magda Kandil, ‘On the Significance of Trade Relations Between GCC Countries and Japan’, in *Journal of Economic Integration* 16.3 (2001), pp.344–368.

²³⁸ Niblock (with Malik), *The political economy of Saudi Arabia*, *op. cit.*, p.97.

²³⁹ *Ibid*, p.104.

government focussed on a multi-layered cooperation, combining economy, cultural and human resources.

On the other hand, Saudi domestic social problems, such as a tremendous gap between the rich and the poor, a huge inflow of foreign workers, overpopulated urban areas, and actual differences in development levels between rural and urban areas, became observable in the early 2000s.²⁴⁰ In addition, the defence-related expenditure put significant pressure on the Saudi government's financial balance. Last but not least, the volatile regional political situation in the Middle East was re-shaped by repeated geopolitical turmoil during the period due to the Iraqi invasion of Kuwait, the 1990-1 Gulf War, the 11 September 2001 attacks and subsequent military campaigns related to the War on Terror.²⁴¹ In particular, the historical and established relations between the United States and Saudi Arabia temporarily fluctuated.²⁴² On the other hand, during the Gulf War in the early 1990s, Japan made a controversial financial contribution (13.5 billion US dollars) to the US-led multinational force. Later, during the Iraq War in 2003, Japan conducted overseas deployment of its self-defence forces for the first time since World War II – within the framework of Japan's constitution. It represented a conceptual shift in the doctrine of international security of post-war Japan.

Amid the changing political and economic situations in the region, the Saudi

²⁴⁰ Murphy, Caryle, 'Saudi Arabia's youth and the kingdom's future', in *Middle East Program, Occasional Paper Series, Winter 2* (Woodrow Wilson International Centre for the Scholars, 2011), pp.1-9.

²⁴¹ Hazbun, Waleed, and Abbas Amanat, 'The Middle East through the lens of critical geopolitics: Globalization, terrorism, and the Iraq War', in *Democracy* 53 (2001), pp.325-361. For the demographic issue, see Tabutin, Dominique, et al., 'The demography of the Arab World and the Middle East from the 1950s to the 2000s. A survey of changes and a statistical assessment', in *Population (English edition)* (2005), pp.505-615.

²⁴² Seznec, Jean-Francois, 'Business as usual', in *Harvard International Review* 26.4 (2005), pp.56-60.

government was facing an impending need of reform in domestic politics, economy, and society as a series of influential petitions signed by Saudi intellectuals and religious establishments were delivered directly to the government in the early 1990s as described in detail in 3.1.1 (2) Process of economic reform.²⁴³ The Saudi government tried to establish a regulatory framework to promote direct investment in order to vitalize the domestic economy.

On the other hand, the energy-scarce Japan began to explore the potentially energy-rich Middle Eastern market for business expansion in consideration of the shrinking domestic market. The Middle Eastern market was attractive in terms of various business potentialities in infrastructure, commodity and information communication technology (ICT) sectors for Japanese companies, representing a potential business foothold in the promising African market in the future.²⁴⁴ The timing of wide-ranging cooperation in the new economic development of Saudi Arabia also took place within the context of both countries' economic demand. The Japanese government implemented a business strategy of integrated public-private sectors to cope with this situation.

As explained in Chapter 2, the initial movement towards industrialization in Saudi Arabia could be seen in the 1960s. The process of industrialization was an import-substitution industrialization which was common in the developing countries.²⁴⁵ As a result of huge oil revenue in the late 1970s, the Saudi

²⁴³ Al-Rasheed, Madawi, 'God, the king and the nation: Political rhetoric in Saudi Arabia in the 1990s', in *The Middle East Journal* (1996), pp.359-371.

²⁴⁴ Economic situation of the Middle East and North Africa and policy of Ministry of Economy, Trade and Industry (METI), *Japan Cooperation Centre for the Middle East (JCCME)* website, *op-cit.*,pp.29. 'Africa Tohshi – Kan-min Kyogi kai (Investment to Africa – Public-Private Committee), *Nikkei Shimbun newspaper*, March 7, 2019

²⁴⁵ Bruton, Henry J., 'A reconsideration of import substitution', in *Journal of economic literature* 36.2 (1998), pp.903-936.

government was then able to carry out construction of domestic infrastructure. After the construction of infrastructure, the Saudi government tried to diversify the industrial structure which totally depended on the export of oil and petrochemical products. Additionally, an industrialization policy for encouraging the manufacturing sector was initiated in the same period. The industrialization policy for exporting manufacturing products was subsequently prioritized in the third five-year development plan from 1980 to 1984.²⁴⁶

Continuously, a comprehensive process of reform took place throughout Saudi domestic politics, economy, and society between 1990 and 2010 which included a range of measures aimed at industrial diversification, including the induction of necessary institutions for foreign capital and joint venture establishment, vocational training, and privatization. In this period, the Japanese government promoted official and intellectual exchanges with the Saudi government, and both governments encouraged the establishment of joint venture companies, including Sumitomo Chemicals (and Aramco) which invested 750 million Saudi riyals (approx.200 million US Dollars) in 2006. This was a consequential decision for Sumitomo Chemical. The Japanese government also deepened its relationship with Saudi Arabia, not only through the promotion of economic relations, but also through cultural exchanges to promote dialogues regarding Islam.

The Japan-Arab Dialogue Forum was proposed by the Japanese prime minister, Junichiro Koizumi in 2003 among Saudi Arabia, Egypt and Japan. The first meeting was held in Tokyo in 2003, followed by the second meeting in Egypt in 2004 and the third meeting in Riyadh in 2005. This dual-factor approach

²⁴⁶ Ramady, *op. cit.*, pp.23-24.

(economy and culture) significantly contributed to widening the basic understanding of bilateral relations and the establishment of further joint venture projects as part of a long-term and sustainable partnership. Bilateral academic dialogs were a part of the partnership. For example, Mazen Mutabbaghani, a Saudi researcher, emphasized the necessity of historical and regional (Asian) studies by Saudi institutes and academics, such as King Saudi University in Riyadh, despite major occidental studies and showed his interest in the scheme of regional studies in Japan.²⁴⁷ On the other hand, Dr. Faris Shihab, an Egyptian assistant professor at Japanese language section, College of Languages and Translation, King Saud University, asserted that a combination of Japanese language and cultural reading comprehension are effective to learn them rather than just learning the language.²⁴⁸

3.1.1 Saudi economic reform process

3.1.1 (1) Characteristics of the Saudi economy in the 1990s and 2000s

Oil and petrochemical industries make up approximately 90% of the total Saudi state revenues.²⁴⁹ Realistically, the economy is directly affected by the fluctuations of the oil price and the volume of oil production in the variable

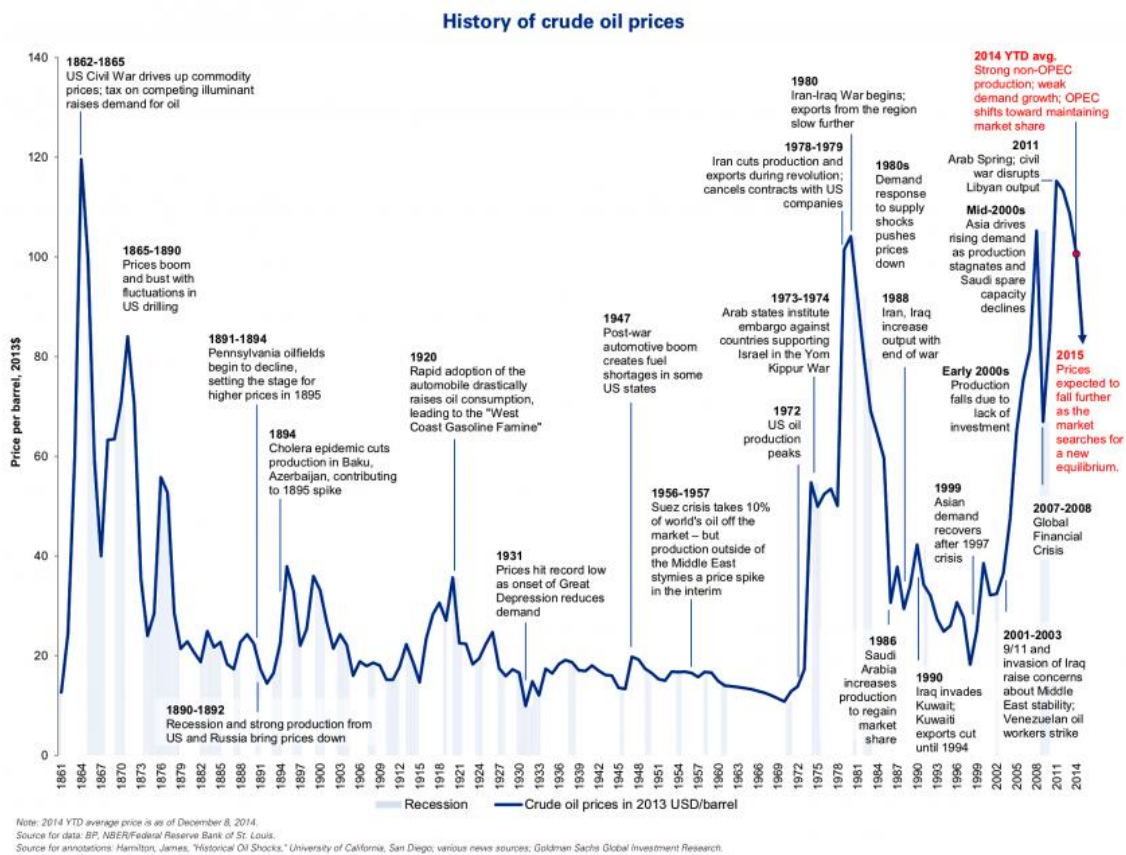
²⁴⁷ The author attended to the meeting between Japanese researchers and Dr.Mazen Mutabbaghani in King Faisal Centre for Islamic Research in Riyadh on December 20, 2005.

²⁴⁸ The author attended to the meeting between Japanese researchers and Dr.Faris Shihab in King Saud University in Riyadh on December 20, 2005.

²⁴⁹ 'Oil Still Accounts For 90% Of Saudi's Total Revenues – Report', *Gulf Business*, September 9, 2014.

international oil market, and this structure has remained unchanged for decades.²⁵⁰ The following Figure 2 explains the history of the fluctuation of oil price which substantially influenced the Saudi economic structure.

Figure 2. History of crude oil prices



Source: REVE, 'Oil price plunge and renewable energy' (December 25, 2014). Available at: <http://www.evwind.es/2014/12/25/oil-price-plunge-and-renewable-energy/49615> (accessed on February 4, 2016).

Secondly, the Saudi economy has been depending on import for most consumer goods and daily commodities which caused a lack of development of

²⁵⁰ al-Darwish, Ahmed, et al., 'Saudi Arabia: Tackling emerging economic challenges to sustain strong growth', in *International Monetary Fund* (Middle East and Central Asia departmental paper series) (2005), pp.19-27.

the manufacturing and processing industries due to a disproportionate priority of enhancing petrochemical and heavy industries in the kingdom.²⁵¹ Moreover, Saudi domestic economic activities have heavily depended on a foreign workforce. The ratio of foreign workers in the total working population reached approximately 59.8% in 1990, 55.8% in 1999 and 50.6% in 2008.²⁵² Finally, as a result of enormous oil revenues and compared to other Arab countries, Most of the cost for health care services, education and utilities are subsidized by the government and kept substantially low, compared to international standards.²⁵³

Concerning the national treasury balance, the Saudi government suffered a budget deficit in the 1980s due to the decline in the crude oil price resulting from a reduction in oil production. Similarly, during the period of the Gulf War in the early 1990s, the Saudi economy recorded an increased financial deficit due to the burden of enormous military campaign expenses and the allocation of foreign assets to recover from the financial damage from the deficit.²⁵⁴ The Saudi government worked on the reduction of annual expenditures by drawing up an emergency budget to reduce the financial deficit.²⁵⁵ As the oil demand from rising economic countries increased in the 1990s, the crude oil price increased from 1996 and a budget surplus was recorded in 2000 for the first time since 1982.

²⁵¹ In 2008, the United States, China, Germany and Japan were listed as the main importers (in decreasing order), while China was ranked at the first place in 2015. The importing items from Japan were machinery, electronics devices, vehicles, chemicals, metals and foods.

²⁵² Baldwin-Edwards, Martin, 'Labour immigration and labour markets in the GCC countries: National patterns and trends', in *LSE Global Governance*, Number 15, (November 2011), pp.8-9.

²⁵³ Karl, Terry Lynn, 'Oil-led development: Social, political, and economic consequences', in *Encyclopaedia of energy, Stanford University* 4, (2007), pp.663-664.

²⁵⁴ Cordesman, *op. cit.*, vol. 2, p. 396 and Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, p.95.

²⁵⁵ Cordesman, *op. cit.*, pp.394-399.

However, the Saudi annual treasury faced another budget deficit from 2001 to 2003²⁵⁶ and again experienced oil price fluctuation in the international market from 2007 to 2010.

Rentierism has been a convincing as well as a salient concept to analyse oil producing states' political economy in the Middle East.²⁵⁷ Paradoxically, rentier states are countries that have lapsed into chronic developing plight, lacking wealth created from oil revenues, and are in substantial and immediate need for diversification of their economy and industrial structure.²⁵⁸ In this perspective, Saudi Arabia acknowledges that the implementation of technology transfer from other countries and human resource development are indispensable to change their social predicament.²⁵⁹ It is surely risky for rentier states to entrust their political and economic fate to the international oil market due to its unpredictability. The chronic fluctuating feature of the oil price has been the utmost problem for oil-producing countries since they have been unable to draw up a proper national development plan based on a long-term and foreseeable governmental budget.²⁶⁰ In the late 1990s, monarchs in the Gulf countries had an increased sense of an impending crisis of the domestic economic structure which depended on oil export. However, as oil prices rose again as a result of a huge demand of

²⁵⁶ Champion, Daryl, *The Paradoxical Kingdom: Saudi Arabia and the Momentum of Reform* (London: C. Hurst & Co. Publishers, 2003): pp.156-157.

²⁵⁷ Hertog, Steffen, 'Shaping the Saudi state: Human agency's shifting role in rentier-state formation', in *International Journal of Middle East Studies* 39.4 (2007), pp.539-563.

²⁵⁸ Okruhlik, Gwenn, 'Rentier wealth, unruly law, and the rise of opposition: the political economy of oil states', in *Comparative Politics* (1999): pp.295-315.

²⁵⁹ Looney, Robert, 'Development strategies for Saudi Arabia: Escaping the rentier state syndrome', in *Strategic Insights* 3.3 (2004), pp.1-12 and Yamada, Makio, 'Gulf-Asia relations as "post-rentier" diversification? The case of the petrochemical industry in Saudi Arabia', in *Journal of Arabian Studies* 1.1 (2011), pp.99-116.

²⁶⁰ Ramady, *op. cit.*, p.49 and Haldane, John, 'OPEC: Saudi Arabia gets tough', in *Washington Report on Middle East Affairs* (December 1986), p.7.

oil in the growth of new emerging economies such as China and India, governmental finances swiftly improved.²⁶¹ Considering those beneficial circumstances, rentier states delayed the implementation of economic reform such as full-scale economic diversification and human resource development. However, the unpredictability of oil price fluctuation cycles caused the governments to refrain from designing a new long-term national economic vision. It was ironic that the reform of economic structures was substantially depending on wavering oil revenues which epitomized the dysfunction of oil-producing countries' economic reform process.

3.1.1 (2) First difficult steps towards privatization of public assets

In the late 1990s, when the oil price plunged again, a full-scale economic reform campaign was predicted. 1998 was the turning point. During the GCC summit held in December 1998 in Abu Dhabi, Crown Prince 'Abd Allah clearly asserted that

the GCC governments and peoples should realize that the boom period is over. We must all get used to a certain type of lifestyle that does not rely entirely on the state. The upcoming period needs the private sector to assume part of the responsibility which has up until now been carried by the state.²⁶²

²⁶¹ Sperling, Daniel, and James S. Cannon, *Driving climate change: cutting carbon from transportation*. (Massachusetts: Academic Press, 2010): pp.20-21.

²⁶² Embassy of Saudi Arabia in the United States, 'Crown Prince Abdullah at the 19th GCC Summit', (August 12, 1998). Available at: <https://www.saudiembassy.net/archive/1998/news/page18.aspx> (accessed on February 12, 2016) and Champion, *op. cit.*, pp.211-212.

The Crown Prince criticized the fact that securing an employment in the public sector was one of the pillars of the rentier social contract between the Saudi government and its people. As a result, the Saudi government's expenditure on personnel expenses was out of proportion with the working performance of some governmental agencies, while policy decisions remain informal and uncertain, depending on the discretion of the individual, and relations between government agencies are not coordinated even in important industrial fields such as renewable energy.

In addition, the Crown Prince pointed out the limits of the economic structure which was completely dependent on the oil industry and emphasized the imminent necessity of diversifying the source of national income to sustain economic growth by introducing foreign investment as well as advanced technology transfers and by re-evaluating potential resources in the kingdom.²⁶³

In August 1999, the Supreme Economic Council, chaired by Crown Prince 'Abd Allah, was set up to promote economic reform. A new foreign investment law was promulgated in April 2004 to promote foreign investment under the Supreme Economic Council's supervision, while the Saudi Arabia General Investment Authority (SAGIA) was established in 2000 to provide foreign investors with general services related to investment nationwide. A Japanese expert was assigned as an advisor to the governor in the organization as well as a representative of the Japan Desk to encourage investment and business between Japan and Saudi Arabia from 2003 to 2007, dispatched by the

²⁶³ Ramady, Mohamed A., and Mourad Mansour, 'The impact of Saudi Arabia's WTO accession on selected economic sectors and domestic economic reforms', in *World Review of Entrepreneurship, Management and Sustainable Development* 2.3 (2006), pp.189-199.

governmental organization Japan Cooperation Centre for the Middle East (JCCME).

Furthermore, the Council officially released its privatization strategy in June 2002. Additionally, another strategy of the human resource development campaign, termed 'Saudization', which would mainly encourage private sectors to replace their foreign workers with Saudi nationals, was initiated. The idea of replacing foreign workforces by Saudi nationals was already one of the targets of the Fourth Development Plan (1985-89). The Saudi government also announced the Nitaqat program, which was put into effect in 2013, in order to practically implement Saudization initiatives. Complying with Nitaqat program was indispensable for continuing business in Saudi Arabia, especially for Japanese manufacturing companies, in terms of sustaining quality of their products.²⁶⁴

The strategic goals of the privatization process in the kingdom had been set out in the Council of Minister's decision no. 60, dated 01/04/1418 H. (August 6, 1997), defining the eight strategic goals for privatization.²⁶⁵ The government defined privatization as follows:

Privatization means changing ownership or management of companies, projects or public services from the government sector to the private sector using market instruments and competition by applying several methods ranging between management and operational contracts, leasing, financing, total or partial sale of assets to the private sector.

²⁶⁴ According to the survey by the embassy of Japan in Riyadh in 2017, Japanese companies in Saudi manufacturing sector had difficulties for employing Saudi nationals with following reasons: high rate of leaving jobs, less skilled workers in labour market, and preference on working-trend of administrative jobs rather than manufacturing.

²⁶⁵ Cordesman, *op. cit.*, pp.414-448; and Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.127-139.

In addition, the Council of Ministers' decision no. 257, dated 11/11/1421 H. (February 5, 2001) formally stipulated that the Supreme Economic Council is responsible for supervising the privatization project, monitoring its implementation, coordinating with governmental entities, as well as simulating the procedures needed to undertake the privatization campaign. The Council was also tasked for issuing a detailed activity plan, including work plan and timeline, on targeted privatization, based on the Council of Ministers' decision. The eight targeted privatization goals were as follows:²⁶⁶

- 1) Increasing the effectiveness of the national economy and its competitiveness*
- 2) Encouraging investment and effective participation of the private sector in the national economy*
- 3) Expanding participation of the public sector in productive assets*
- 4) Encouraging national and international capital markets to invest in the Kingdom.*
- 5) Increasing job opportunities and employment for the national work force*
- 6) Providing timely low cost services to the public and to the investors*
- 7) Controlling public spending to minimize the burden on the state budget*
- 8) Increasing state revenues through participating income from the private sector Awards*

²⁶⁶ US – Saudi Arabian Business Council, 'Privatization Strategy for Saudi Arabia' (especially Chapter 1 on Privatization Objectives and Policies, C. Privatization objectives and policies) (2015). Available at: <http://www.mafhoum.com/press3/112E15.htm> (accessed on February 5, 2016).

In November 2002, the Council of Ministers approved a list of 20 business targets of utilities and public services sectors for privatization, mainly related to water resource management and infrastructure businesses, based on a resolution of the Supreme Economic Council. The actual process of privatization strategies in these sectors was scheduled to be decided according to the structure and scale of each business.²⁶⁷ The targeted sectors included water and sewage, seawater desalination, telecommunications, aviation logistics, road and railroad transportation, airport services, post, flour milling factories, harbour facilities services, industrial city services, sales of governmental stocks, including the Saudi Electricity Company, commercial banks, SABIC, Saudi Arabia Mining Company (Maaden), the Saudi Telecom Company (STC), state-owned hotels, sports club facilities, local governmental services, educational services, social services, agricultural services and health care services.²⁶⁸

The Saudi privatization process was controversial and, as Malik and Niblock argued, was closely linked to ‘the attraction of foreign investment’ and ‘the satisfaction of conditions for WTO membership’²⁶⁹ and gradually changed its

²⁶⁷ Hertog, Steffen, *Lean and mean, op. cit.*, pp.17-20.

²⁶⁸ Wilson, Rodney, ‘Saudi Arabia’s role in the global economy’, in Fox, John W., Nada Mourtada-Sabbah, and Mohammed Al Mutawa (eds.), *Globalization and the Gulf* (Oxford: Routledge, 2006): pp.169-172. In addition to the privatization in the water sector discussed below, the other companies involved were: the Company for Cooperative Insurance (Financial Services) (privatization of 70% in 2004), Bank Al-Bilad Financial Services (50% in 2005), Saudi Kayan Petrochemical Company (45% in 2008), Saudi Airlines Catering Company (49% in 2008), Alinma Bank (70% in 2008), Saudi Arabian Mining Company (50% in 2008) and Rabigh Refining and Petrochemical Company (25 in 2008).

²⁶⁹ Malik, Monica and Tim Niblock, ‘Saudi Arabia’s economy: The challenge of reform,’ in Aarts and Nonneman, *op. cit.*, pp.98-99.

shape to function 'as a process involving structural transformation' of the Saudi economy.²⁷⁰ In addition, Hosaka indicated that the Saudi people's attitude to privatization process could be simply described as 'generally in favour, however, detailed process is still in opposite', referring to King Fahd's remarks in 1994 on advantages of the privatization policy that the Saudi government was encouraging private sectors' investment into the entities²⁷¹ and those contents were reflected in the Sixth Five-Year economic plan (1995-1999).²⁷² Many senior officers positively referred to the king's remarks in public, however, no substantial steps were taken to implement the process in practice within their organizations.

The best illustration of this unpreparedness concerns the water resource management sector. The National Water Company (NWC), which controls water and sewage services in the cities of Riyadh, Jeddah, Macca, Madinah, and Taif,²⁷³ was established under the authorization of the Saudi Ministry of Water and Electricity (MOWE) in 2008 by royal decree no. 2/29 dated 29/6/1429 H (July 3, 2008). In addition, the Saline Water Conversion Cooperation (SWCC), which is responsible for supplying desalinated seawater to MOWE and NWC, was established by the same royal decree no. 2/29. NWC viewed their privatization as part of the mission to make the company 'be a pioneer in the desalination industry, applying business principles and updating its activities to meet local and

²⁷⁰ *Ibid.*, p.100.

²⁷¹ Hosaka, Shuji, *Saudi Arabia. The changing oil kingdom* (in Japanese) (Tokyo: Iwanami-shoten, 2005): p.82.

²⁷² *Ibid.* and Ramady, *op. cit.*, pp.21. Ramady describes the period covered by the Sixth Five-Year Economic Plan (1995-1999) as the 'beginning of partial privatization'.

²⁷³ NWC had a six-year management contract (246 million Saudi riyals, 65.6 million US Dollars) with French company Veolia Water in 2008 and tried to bring the international quality of management into Saudi water and sewage sector. See 'Veolia Water forms new company with Saudi authorities', *Business Intelligence Middle East*, April 13, 2008.

international challenges and changes.²⁷⁴ NWC comprised many foreign staffs and the process and philosophy of privatization of state-owned enterprises and deregulation policy in national economy was explicitly inspired from British Thatcherism, without taking into account the negative consequences of the latter. In addition, key questions, including the rise of water and sewage tariffs and the collection methods, were not anticipated and remained undiscussed.²⁷⁵

As for the SWCC, its mission was to 'strive to provide water and electricity using the latest technology, at a reduced cost, with the help of a qualified national work force, so as to achieve economic growth and social development'.²⁷⁶ 30% of the STC stocks were designated for sale on the market for one month from December 17, 2002. Moreover, the operation and maintenance services at the domestic seaport facilities were consigned to the private sector. Although the international consulting companies repeatedly reviewed the importance of revising water and sewage tariff systems to be internationally acceptable, no further discussion was encouraged. It seems that it was a common understanding among the water business entities that the actual start of the privatization process would take more

²⁷⁴ 'Nomination of Ministry of Water & Electricity, Kingdom of Saudi Arabia, Supporting Documents for King Hassan II Great World Water Prize 2012', *World Water Council* (2011). Available at:

http://www.worldwatercouncil.org/fileadmin/world_water_council/documents_old/Prizes/Hassan_II/Candidates_2011/16.Ministry_SA.pdf (accessed on March 3, 2016).

²⁷⁵ Author's business meeting in 2013 with a Pakistani director of the privatization affairs at NWC when privatization in the water sector was on the government's agenda. The interviewee, who was under the CEO's direct authority, led all the meetings and contacts with the foreign firms involved in the privatization process. No Saudi employee was involved in these discussions and all meeting agendas and contents were directly reported to the CEO.

²⁷⁶ 'Press release. An interview with HE Eng. Abdulrahman al-Ibrahim, Governor of Saline Water Conversion Corporation,' *Saudi Arabia (SWCC) at International Water Summit* website (September 15, 2013). Available at:

<http://iwsabudhabi.com/portal/news/15/9/2013/saline-water-conversion-corporation-swcc-kingdom-of-saudi-arabia-governor-he-dr-abdulrahman-m-al-ibrahim-on-renewable-energy-for-desalination-and-water-for-all.aspx> (accessed on March 3, 2016).

time – even more so after 2011, due to the social uneasiness and the regional political situation.²⁷⁷

3.1.1 (3) Launching of the Saudization campaign

After the 1970s, when oil revenues increased substantially, the Saudi government carried out ambitious economic development in various industrial fields and, as a result, the workforce demand drastically increased. The government acknowledged the need for an inflow of foreign workers as the Saudi workforce remained insufficient both quantitatively and qualitatively. Although the Saudi workforce increased annually through the dissemination of education and vocational training, the Saudi labour market has remained occupied since then by a vast majority of (skilled and qualified) foreign workers. As job opportunities within governmental sectors quickly reached its full capacity, the Saudi national labourers were faced with the predicament of unemployment both within governmental and private sectors.²⁷⁸

Basically, two different measures were introduced to counter the unemployment problem in the Saudi labour market. The first was the creation of job opportunities by economic diversification and expansion, and the other was the replacement of foreign workers with Saudi nationals by enforcing binding regulations within the market mechanism. This Saudization campaign used two different methods: the first was to raise the ratio of Saudi nationals employed in

²⁷⁷ Author's business meeting in 2013 with the Saudi officer in charge of SWCC's privatization.

²⁷⁸ Mellahi, Kamel and Geoffrey T. Wood, 'Human resource management in Saudi Arabia' in Pawan, S. Budhwar, and Yaw A. Debrah, *Human Resource Management in Developing Countries*. (Oxon: Routledge, 2001): pp.139-142 and 158-160.

the private sector. In 1999, the size of the labour force, over the age of 15, in the Saudi labour market was approximately 7.17 million, four millions of them being foreign workers.²⁷⁹ The Saudi government initially assigned nationals to the labour sector of security, both governmental (military, national guard and police officers) and private (companies' security staff, school and residential compound security staff, etc.). Subsequently, considering the economic circumstances but also the availability of qualified and skilled Saudi nationals on the job market, ratios of Saudization were established in the following industries: aviation, water and sewage, cement construction materials, private education, hotels, and electronics companies. A law, termed as the 5% regulation, was enacted in 1994, however, it hardly functioned because of a lack of punitive clauses.²⁸⁰

The second method was to select occupations reserved to Saudi nationals. A list of 219 such professions was established, however this policy achieved mixed results.²⁸¹ In particular, the Saudi government expected to realize Saudization in a variety of occupations such as jewellery and accessory retail shops, vegetable dealers, and taxi drivers. However, in March 2016, Saudi Labour Minister Mufarrij al-Haqbani admitted that the ministry had failed to implement Saudization in some sectors and ascribed this failure to the lack of governmental coordination and non-involvement of some agencies.²⁸²

Moreover, a Human Resources Development Fund (HRDF) was established

²⁷⁹ Cordesman, *op. cit.*, vol. 2, pp.250-253.

²⁸⁰ Mahdi, Salah, 'Saudization and Structure of the Labour Market in Saudi Arabia', in *Business School Working Papers, University of Hertfordshire*, vol. UHBS 2000-11, Economics Paper, vol. 24 (2001): pp.19-25; Looney, Robert E. (ed.), *Handbook of emerging economies*. (Oxford: Routledge, 2014): pp.496.

²⁸¹ Fakeeh, Manal Soliman, 'Saudization as a Solution for Unemployment – The Case of Jeddah Western Region' (PhD dissertation: University of Glasgow, 2009): p.191.

²⁸² Faris Al-Qahtani, 'Al-Haqbani admits failure in Saudization in some sectors', *Saudi Gazette*, March 16, 2016.

on July 31, 2000 by royal decree no. M/18 of the Council of Ministers, aimed at 'providing subsidies in order to support the national workforce's training and employment in private sector'.²⁸³ on August 5, Encouraging actors of the private sectors to utilize the fund efficiently,²⁸⁴ it announced that activities of the fund included the subsidy for Saudi individuals to acquire skills and qualifications and for private companies to implement necessary vocational training and education for Saudi employees; and the allocation of partial salaries for Saudi employees for a certain period. Private enterprises chose young Saudi nationals and registered them to apply for a subsidy for their salaries as well as vocational training costs. However, in a long-term perspective, the system to train them was not functioning sufficiently in most of the private companies except major ones, such as Aramco and SABIC. In fact, the Saudization campaign had no immediate effect and did not bring the result that the government had planned on the domestic labour market.

Saudization can be considered as a political campaign which substantially ignored the factors of economic feasibility and effectiveness. Most of the company owners rarely employed unskilled, but relatively high-cost, Saudi nationals who needed vocational training and experience. As explained in 3.2.2, Japan's experiences of vocational training and the Japanese approach to establishing technical vocational institutes in Saudi Arabia proved critical to the Saudi government. As a result, the expectation of this cooperation from Japan was also high.

²⁸³ Human Resources Development Fund, 'Objectives' (2018). Available at: <https://www.hrdf.org.sa/> (accessed on July 1, 2018).

²⁸⁴ Bremmer, Ian, 'The Saudi Paradox', in *World Policy Journal* 21.3 (2004), pp.23–30.

3.1.2 The Saudi industrial sector

The main industries of Saudi Arabia are to be found in petrochemical, fertilizer, oil refinery, and steel manufacturing industries, due to the abundance of oil resources. Basically, this characteristics has remained largely unchanged until today.²⁸⁵ The success and profitability of the public companies and organizations in these sectors explains that they became promotional entities for encouraging petrochemical industry and greatly contributed to the realization of industrialization and an export-oriented economy in Saudi Arabia. However, it did not bring a solution to the long-term social problems, such as the necessity to encourage small and medium sized enterprises' businesses or to create job opportunities for Saudi youths because the facility-incentive petrochemical industry could not create enough benefits to the allied industries.²⁸⁶ Furthermore, most of the petrochemical businesses have been directed at the international market, which has chronically been unstable due to the global variations of the demand and price trends.²⁸⁷

This section examines characteristics in Saudi oil and gas industries as well as industrial development in agriculture and mining sectors.

²⁸⁵ Saudi Arabian Monetary Agency, 'The Saudi Economy: Trends, Risks and Growth Outlook, Financial Stability Report 2015' (2015). Available at: <http://www.sama.gov.sa/en-US/EconomicReports/Financial%20Stability%20Report/FINANCIAL%20STABILITY%20REPORT-2015.pdf> (accessed on march 13, 2016).

²⁸⁶ Achoui, Mustapha M., 'Human resource development in Gulf countries: an analysis of the trends and challenges facing Saudi Arabia', in *Human Resource Development International* 12.1 (2009), pp.35-46.

²⁸⁷ Smith, Benjamin, 'Oil wealth and regime survival in the developing world, 1960–1999', in *American Journal of Political Science* 48.2 (2004), pp.232-246.

3.1.2 (1) Globalizing Saudi oil and gas industries?

Saudi Arabia has one of the world's largest proven crude oil reserves after Venezuela. Proven oil reserves in 2016 amounted to 266 billion barrels, representing 21.9% of all OPEC member countries' reserves.²⁸⁸ Its proven reserves of natural gas (288,400 billion cubic feet in 2014) occupied the sixth rank in the world after Iran, Russia, Qatar, Turkmenistan and the USA.²⁸⁹ In addition, OPEC usually decides and allocates each member country's volume of production in consideration of global energy demand and political economy situation. In 2014, the Saudi volume of daily crude oil production (including share of production from the Neutral Zone) amounted to 9,713,000 barrels per day.²⁹⁰ The Saudi production volume of gas, namely oil-associated gas, reached 57.32 billion standard cubic metre in 2002 and 115 billion standard cubic metre in 2017²⁹¹ for domestic power fuel and petrochemical material. The gas production as well as the consumption have grown steadily as shown in Figure 3 below. Resulting from an international trend of suppressing CO₂ emission, gas business continued to expand annually, avoiding combusting oil and coal. According to Saudi Aramco forecasts, natural gas demand is expected to more than double to

²⁸⁸ OPEC, 'OPEC share of world crude oil revenues 2014' (2016). Available at: http://www.opec.org/opec_web/en/data_graphs/330.htm (accessed on February 6, 2016).

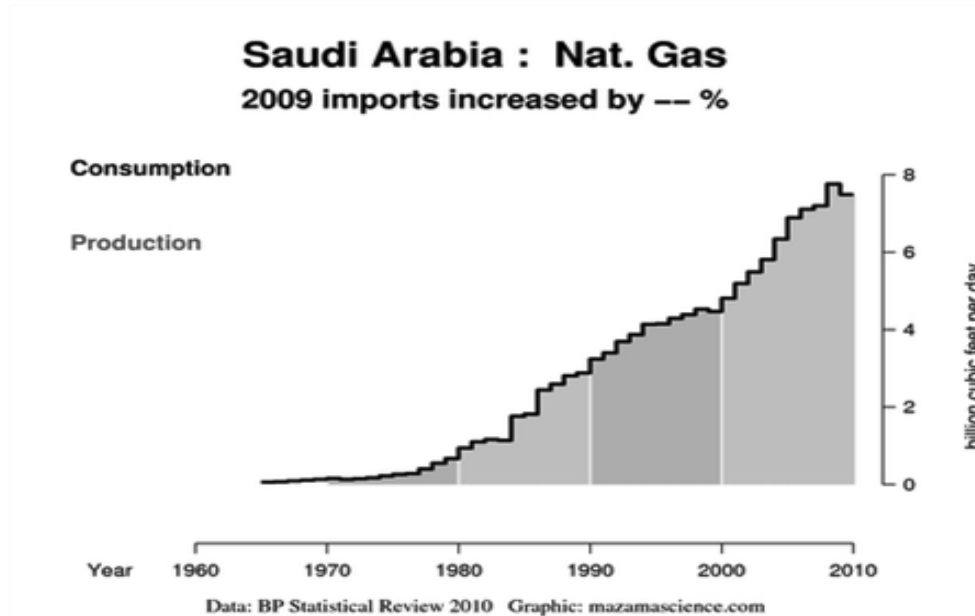
²⁸⁹ BP Statistical Review of World Energy June 2015, 'Natural Gas, Total Proved Reserves' (June 2015). Available at: <https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf> (accessed on February 6, 2016).

²⁹⁰ OPEC, 'OPEC Annual Statistical Bulletin 2015' (2015). Available at: http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2015.pdf (accessed on February 6, 2016).

²⁹¹ OPEC, 'Interactive-charts, Natural gas data, OPEC Member's marketed production of natural gas in 2002' (2016). Available at: <http://asb.opec.org/index.php/interactive-charts/gas-data> (accessed on February 6, 2016).

14.5 billion cubic feet per day by 2030.²⁹²

Figure 3 Natural gas production and consumption in Saudi Arabia²⁹³



Saudi oil policy has prioritized stabilizing the international oil market as well as simultaneously securing its market share and maintaining long-term oil revenues.²⁹⁴ The fluctuating oil price adversely affected the economy of both oil-producing and consuming countries worldwide. As experienced during the first and second oil crises in the 1970s, the high-priced oil standard was causing a decrease in oil demand, which led the consumers to promote, as a consequence, the development of alternative energy. On the other hand, the prolonged fall in

²⁹² The Oil Drum, 'Saudi Arabia oil exports to decrease due to increased domestic demand' (April 14, 2011). Available at: <http://oilprice.com/Energy/Crude-Oil/Saudi-Arabia-Oil-Exports-To-Decrease-Due-To-Increased-Domestic-Demand.html> (accessed on February 6, 2016).

²⁹³ Source: *ibid.*

²⁹⁴ Gause, F. Gregory, 'Saudi Arabia over a barrel', in *Foreign Affairs* 79.3 (2000), pp.80–94.

the price of oil would cause oil-producing countries a severe economic blow and social instability. In this context, the self-assigned role of Saudi Arabia has been to try to maintain an oil price which was thought to be acceptable for both oil-producing and consuming countries in order to minimize those adverse effects.²⁹⁵ In addition to it, the Saudi government has pursued a business strategy of maximization of oil revenues by selling crude oil as value-added products. To proceed with this strategy, the government purchased the right of interests of existing foreign refinery facilities in the oil-consuming countries, aiming at capacity reinforcement of domestic refineries for more export and expansion of the crude oil sales route.²⁹⁶

On the other hand, the development of gas fields in Saudi Arabia was restrained by the recognition of gas as a possible competing energy source with oil. However, as the oil value slump continued after 1998, the Saudi government devised the Gas Initiative, which was a comprehensive gas field development plan affiliated with energy-related businesses, such as construction of power generation, desalination, and petrochemical facilities (as part of an industrial diversification initiative), and introduced a business plan intended to attract international oil companies in October 1998. The concept of the Gas Initiative project was to open up domestic gas field development to international energy companies, expecting a project worth a total of 25 billion US dollars that included a combination of petrochemical facilities, power generation, and desalination

²⁹⁵ Coates-Ulrichsen, Kristian, 'Resource security in Saudi Arabia: Domestic challenges and global implications', in Steven, David, Emily O'Brien, and Bruce Jones (eds.), *The new politics of strategic resources: Energy and food security challenges in the 21st century*. (Washington D.C.: Brookings Institution Press, 2015), pp.168–186.

²⁹⁶ Mitchell, John and Glada Lahn, 'Oil for Asia', *Chatham House Energy, environment and development programme briefing paper 07/01*, (2007), p.9.

facilities.²⁹⁷ This was initiated by then Crown Prince 'Abd Allah. Official negotiations for the first three targeted gas fields kicked off in May 2001. Eight companies showed interest in the negotiations, forming a consortium in each of the three gas fields: Core Venture (CV) 1 headed by ExxonMobil; CV2 headed by ExxonMobil; and CV3 headed by Royal Dutch Shell. However, in June 2003, it was revealed that the negotiations of CV1 and CV2 had been cancelled. As for CV3, the agreement between Aramco and Royal Dutch Shell / Total was concluded with a modified scope of work (development of the gas upstream business with two billion US Dollars).²⁹⁸ Shortly after, the Saudi government announced another gas field development project in the Rub' al-Khali desert area, called the Gas Round project, and implemented international tenders in 2004. Finally, three companies, Lukoil, SINOPEC and ENI were awarded the right of interests of the development projects.²⁹⁹

The Gas Initiative project finally went down to inertia, wasting five years of negotiations.³⁰⁰ Maeda argued that three internal factors brought the project to stagnation. Firstly, the tender participants had different understandings and calculations of the profit rate in the gas field. Secondly, the data and information on the gas fields' geological structure and features from Aramco, which were necessary to calculate the project costs and profits, were insufficient. Thirdly, it was reported that gas endowment in the assigned site was inadequate to develop

²⁹⁷ Aitani, Abdullah M., 'Big growth ahead seen for Saudi gas utilization', in *Oil and Gas Journal* 100.30 (2002), pp.20-26.

²⁹⁸ Robins, Philip, 'Slow, slow, quick, quick, slow: Saudi Arabia's 'Gas Initiative'', in *Energy policy* 32.3 (2004), pp.321-333.

²⁹⁹ Kobayashi, Yoshikazu, 'Corporate strategies of Saudi Aramco', in *The James A. Baker III Institute for Public Policy, Rice University, Texas, US* (2007), pp.9-19; and 'Russia's Lukoil to drill for tight gas in Saudi desert', *Reuters* (May 15, 2014).

³⁰⁰ Mason, Robert, *Foreign policy in Iran and Saudi Arabia: Economics and diplomacy in the Middle East*. (London: IB Tauris, 2015): pp.38-41.

while disagreements emerged regarding additional gas field development negotiations.³⁰¹ In addition to the economic factors, domestic security problems arose in 2003 including terrorist attacks in Riyadh and abduction incidents by al-Qaeda-inspired groups.³⁰²

Amid the prolonged depressing trend of oil price which came to a peak in 1998, and of a decreasing GDP in conjunction with the oil price slump, the principal target of the Gas Initiative was not limited to developing gas fields, but also to build a new business model of gas industry-related facilities of petrochemical, power generation, and desalination. The lack of electricity and water supply could cause Saudi society serious problems as the population increased rapidly, and, at the same time, the creation of employment opportunities for Saudi youths was an urgent issue. It was expected that the Gas Initiative could contribute to the resolution of the unemployment problem.³⁰³ The Saudi government's convenient expectation was both to reach a solution to the domestic unemployment problem and to help Saudi companies benefit from technical transfers by international companies, and thus utilizing unexploited existing energy in the kingdom.³⁰⁴ It was obvious that governmental enterprises, such as SWCC and SEC, could no longer sufficiently absorb the unemployed youths, nor solve related social

³⁰¹ Maeda, Takayuki, 'Sauji-gasu-inisiatybu keikaku no epirougu: kimyou na ketsumatsu (An epilogue of Saudi Gas Initiative: A strange ending)', in *MENA Informant* (July 13, 2003). Available at: <http://www2.pf-x.net/~informant/saudi/saudiinitiativefinal.htm> (accessed on February 7, 2016).

³⁰² Mason, *op. cit.*, p.39.

³⁰³ Kawamura, Akira, 'Sauji-gasu-inisiatybu to gasu raundo no haikei ni kansuru ichi kousatsu (A Research on backgrounds of the Saudi Gas Initiative and the Gas Round)', in *Kansai University of International Studies*, No.7 (2006), pp.43-60; and Toichi, Tsutomu, 'Gasu den kaihatsu to rinku suru sauji no denryoku mizu bijinesu (Saudi power and water business linked to gas fields' development)', in *The Institute of Energy Economics, Japan*, April 2002.

³⁰⁴ Wilson, Rodney, *Economic development in Saudi Arabia*. Vol. 1. (Oxford: RoutledgeCurzon, 2004): pp.49-53.

problems by themselves. Then Minister of Foreign Affairs Sa'ud bin Faysal, who was in charge of the negotiation committee, mentioned that the country 'seeks to attract major and urgent investments to boost economic infrastructure, raise growth levels, provide new employment and training opportunities for citizens and attractive opportunities to employ Saudi capital.'³⁰⁵ Obviously, economic and social issues were perceived as affecting the Al Sa'ud's political legitimacy, and as such, the Gas Initiative and its anticipated outcomes had also a critical political dimension.³⁰⁶

In parallel with the focus on the gas sector, the Supreme Council of Petroleum and Minerals (SCPM) was established in June 2000 as a governmental decision-maker charged with drawing up national policies on petroleum, gas and other hydrocarbon resources as well as the administrative organization of Saudi Aramco. The Council was comprised of 12 ministers and chaired by King Fahd.³⁰⁷ The Council was given authority on petroleum production planning, but also tasked to draw a five-year business development plan of energy field excavation and capital investment. The appointment of the president of Aramco and its executives was also among its responsibility.³⁰⁸ Additionally, the Council was responsible for determining fixed prices of domestic fuels and raw materials as well as examining contents of international agreements on mineral resource development projects.³⁰⁹

³⁰⁵ Jasim H. Ali, 'GCC Insights: Saudi Gas Initiative highly ambitious and complex', *Gulf News* (August 23, 2002).

³⁰⁶ Maeda, *op.cit.*

³⁰⁷ Bahgat, Gawdat, 'Managing dependence: American-Saudi oil relations', *Arab Studies Quarterly* (2001), pp.1-14.

³⁰⁸ Abaoud, H. A., and T. N. Veziroglu, 'Energy kingdom', in *Energy conversion and Management* 43.6 (2002), pp.855-861.

³⁰⁹ The SCPM was dissolved in a series of drastic reforms initiated by King Salman in January 2015.

3.1.2. (2) The non-oil sector's industrial development since 1975

Although benefiting from huge oil revenues in the late 1970s, the Saudi government recognized the necessity of diversifying the oil-dependent economic structure and worked on the non-oil sector's industrial development, particularly, introducing foreign investment. In order to achieve its goal, the Saudi government implemented several economic measures. While maintaining domestic infrastructure projects which were necessary for sustaining national industrial development, it established regional industrial areas and encouraged domestic private capitals' participation in industrial projects. Moreover, the government was preparing attractive investment incentives for promoting foreign capital involvement and technology transfer into the kingdom.³¹⁰ In addition to the Royal Commission of Jubail and Yanbu (RCJY) and SABIC discussed in Chapter 2, the Saudi government established special industrial and economic zones, such as *King Abdullah Economic City (KAEC)*, *Jazan Economic City (JEC)*, *Prince Abdulaziz bin Mousaed Economic City (PABMEC)* in Hail, *Knowledge Economic City (KEC)* in Madinah, and financial complexes in Riyadh.³¹¹

In order to manage and develop the regional industrial areas, the Saudi Industrial Property Authority (MODON) was established in 2001. MODON is responsible for the development of industrial cities with integrated infrastructure in various regions of Saudi Arabia.³¹² MODON is administrating 34 existing and

³¹⁰ Choudhury, Masudul A., and Mohammed A. Al-Sahlawi, 'Oil and non-oil sectors in the Saudi Arabian economy', in *OPEC Review* 24.3 (2000), pp.235-250.

³¹¹ Al-Filali, Isam Yahia, and Giulio M. Gallarotti, 'Smart development Saudi Arabia's quest for a knowledge economy', in *International Studies* 49.1-2 (2012), pp.47-76.

³¹² MODON, 'About MODON' (November 2017). Available at:

underdeveloped cities as of 2015, including Riyadh (Industrial Cities 1, 2 and 3), Jeddah (1, 2, 3 and 4), Dammam (1, 2 and 3), Macca, Qassim (1 and 2), al-Ahsa' (1 and 2), Madinah, al-Kharj, Sudair, al-Zulfi, Shaqra', Dhurma, Hail, Tabuk, Arar, al-Jouf, 'Asir, Jazan, Najran, al-Baha (1 and 2), Taif and Hafr al-Batin. In addition, there are cities undergoing planning and design, including Salwa, Dhuba, Nawan, Military industries and Jeddah 4. In addition, there are more than 3,000 factories in the existing industrial cities with investments exceeding 250 billion Saudi riyals, employing more than 300,000 people. In principle, one of the significant goals of constructing regional industrial areas was to encourage domestic small and medium sized businesses, and as a result, many companies from various industries are now manufacturing products in the industrial cities.

The Japanese government and MODON cooperated in introducing Japanese companies in the industrial cities. In particular, in 2010, MODON's then director general, Dr. Tawfiq al-Ragiah's ambition to establish and utilize Saudi industrial estates and technology zones for industrial development, was synchronized with Japanese advanced technology cooperation.³¹³ His first visit abroad in a minister's capacity was Tokyo in 2012 to attend the 12th Japan-Saudi Arabia Business Council. On this occasion, Fujitsu and MODON signed an MoU on a state-of-the-art environmental monitoring and management systems for domestic industrial parks.

https://www.modon.gov.sa/en/aboutmodon/Pages/about_modon.aspx (accessed on July 5, 2018).

³¹³ Tawfiq al-Ragiah was appointed as Minister of Commerce and Industry in December 2011 and still has an influential position at MODON as the chairman of the board of directors.

3.1.2 (3) Development of agriculture and mining industries

Saudi agricultural policy was intended to facilitate the sedentarization of the Bedouins³¹⁴ as well as a breakaway from food-import dependence. At first, an accumulated national budget of approximately 16 billion US dollars was allocated for Saudi agricultural projects between 1975 and 1995 and the area of agricultural land was extended from 150,000 hectares to 1,600,000 hectares within the two decades.³¹⁵ The Saudi government adopted agro-politics to achieve self-efficiency of agricultural and livestock products and to secure the domestic food supply and supported domestic farmers by offering purchase-guarantee schemes of farming products and miscellaneous subsidy applications,³¹⁶ while the Ministry of Finance's affiliated agriculture bank provided financial services such as interest-free loans and other governmental subventions for the farmers. In particular, the Saudi government encouraged cultivation of wheat and managed to reach self-sufficiency in 1985, starting to export to the international market in 1986. However, as a result of the critical failure of water resource management and planting conversion policy for barley cultivation, the government began to reduce gradually the wheat production, and finally suspended its export in May 1995, while still continuing cultivation for the purpose of domestic self-sufficiency.³¹⁷ Another feature of the Saudi agricultural industry was the success

³¹⁴ Hagihara, Jun, 'Saudi Arabia no Kindai ka – hi-Sekiyu minkan kigyo no bunseki to shohi shakai ka (The modernization of Saudi Arabia: Creation of a petrodollar-driven consumer society)', in *Kyoto Bulletin of Islamic Area Studies*, 6 (March 2013), pp. 231-256.

³¹⁵ Saudi Ministry of Culture and Information, *The Kingdom of Saudi Arabia – A Young Modern Country with Rich Tradition* (Tokyo: Royal Embassy of Saudi Arabia in Japan, 2004): pp.111-114.

³¹⁶ El Mallakh, *op. cit.*, pp.79-86 and 95-97.

³¹⁷ Al-Goosi, Abdullah I., *Factors affecting the import of wheat in Saudi Arabia*. No.

of agribusiness holdings, such as *Saudia Daily & Foodstuff* (established in 1976), *al-Safi* (established in 1979), and *al-Marai* (established in 1997 by Sultan bin Muhammad al-Kabeer).

Additionally, among the products of Saudi agriculture, date cultivation has been famous worldwide. Deputy Agriculture Minister for Agricultural Affairs Khalid al-Fehaid, mentioned that Saudi Arabia's production of dates reached around 1.1 million tons (17% of world production), while the production of palm trees covered an area of 157,000 hectares and the number of palm trees reached more than 25 million – which makes the kingdom the world's second largest date producer, exporting around 5% of domestic produce.³¹⁸

On the other hand, several geological surveys confirmed that Saudi Arabia has a variety of mineral resources remaining undeveloped.³¹⁹ The Saudi Arabia Mining Company (Maaden), a governmental enterprise established in 1997, is playing a key role in developing the mining industry in Saudi Arabia where precious metals and minerals, such as gold, silver, copper, iron, zinc, bauxite, and phosphorus, among others, have been discovered.³²⁰ In particular, the

10972. (Michigan State University, Department of Agricultural, Food, and Resource Economics, 1980). Available at: <https://ideas.repec.org/p/ags/midagr/10972.html> (accessed on February 9, 2016). According to Reuters (Paul, Katie, 'UPDATE 1-Saudi Arabia has enough wheat to last more than six months -SAGO', *Reuters*, February 23, 2016), Saudi Arabia has 1.8 million tonnes of wheat reserves in 2016, which is equivalent to six months of domestic consumption. The Saudi General Grains Organization (SAGO) and the Public Investment Fund (PIF) were studying a possible privatization of four flour mills in 2017.

³¹⁸ 'Saudi Arabia produces 17 percent of world's dates', *Al-Arabiya* (July 28, 2014).

³¹⁹ Qadhi, Talal M., 'Origin and hydrothermal alteration of rare-metal granites in the Al-Hamra area, northeastern Arabian Shield, Saudi Arabia', in *Central European Geology* 50.3 (2007), pp.259-282.

³²⁰ Hani al-Dabbagh, Vice President SBU Precious Metal and Exploitation, Maaden, 'Non-Petroleum Minerals and Metals in KSA, Mining in the world – Maaden and the Kingdom of Saudi Arabia,' Presentation at the Austarab Forum and Expo, Melbourne (Australia, May 5, 2011). Available at: http://www.austarab.com.au/literature_51283/Forum_and_Expo_Presentation_-

annual output of gold from domestic mines was gradually increased to five tonnes in 2015 and seven tonnes in 2016.³²¹ The development of the mining business was facilitated by flexibly-formed joint venture companies including foreign capitals. With 4,366 employees, Maaden's sales amounted to 5.6 billion riyals (total assets: 55.1 billion riyals) in 2012. The phosphate fertilizer business made up 52% of the total sales.³²² Other companies are dealing with the excavation of minerals, such as granite, marble, and limestone in the mineral-rich kingdom.

3.2 Joint ventures and vocational training, motors of the multi-layered cooperation

Saudi Arabia and Japan have been steady trading (export) partners for decades. Japan is Saudi Arabia's second major export partner, with 13.2% of total Saudi exports in 2011 (mainly and petrochemical products) – after the United States (14.3%) but before China (12.9%)³²³ and the first export partner with 12.1% of total Saudi exports in 2017.³²⁴ Conversely, Saudi Arabia imports Japanese vehicles and parts, food, metals, machinery, electronics and home appliances,

[Mr Robert Robson](#) (accessed on February 7, 2016).

³²¹ 24hGold, 'History of gold production, Saudi Arabia' (2016). Available at: http://www.24hgold.com/english/stat_country_detail.aspx?pays=Saudi%20Arabia&deid=24470B1670 (accessed on July 5, 2018).

³²² Maaden, 'Annual Report 2012, Summary' (2012). Available at: <http://www.maaden.com.sa/download/2012-Annual-Report-En.pdf> (accessed on March 6, 2016).

³²³ Ministry of Economy, Trade and Industry, 'Japan's oil import and trading with the Middle East' (in Japanese) (2007). Available at: <http://www.meti.go.jp/statistics/toppage/report/bunseki/pdf/h18/h4a0606j5.pdf> (accessed on March 12, 2016).

³²⁴ Japan External Trade Organization, 'Statistics - Saudi Arabia based on Saudi Ministry of Economy and Planning, Central Department of Statistics and Information', (2019). Available at: https://www.jetro.go.jp/world/middle_east/sa/gtir.html (accessed on May 13, 2019).

making Japan its fourth most important import partner Japan (6.7% of total Saudi imports) – behind the United States (13.5%) and China (12.7%).³²⁵ Under these continuous trading relations, a number of joint venture companies were established in this period which led the two countries agreed for ‘the promotion and protection of investment’ in April 2013.³²⁶

After the 1970s, economic exchanges between Japan and Saudi Arabia benefitted from the establishment of joint venture companies in various fields of industry including steel pipe manufacturing, methanol and polyethylene production, and air-conditioner manufacturing, as a consequence of the conclusion of the economic technical cooperation agreement in 1975. As discussed in chapter 2, this period was the first boom of economic relations between the two countries which caused Japanese companies to move towards reciprocal business relations.

Simultaneously, official visits also boomed in the 1990s and 2000s, enhancing multi-layered bilateral relations – in the economic, cultural, and human development cooperation fields combined. However, a turning point regarding bilateral energy relations happened in 2000, when the Japanese Arabian Oil Company, which had been involved in oil development and operation in al-Khafji in the kingdom since 1960, failed to renew its right of interests.

³²⁵ Japan External Trade Organization, ‘Statistics - Saudi Arabia based on Saudi Ministry of Economy and Planning, Central Department of Statistics and Information’, (October 31, 2013). Available at: https://www.jetro.go.jp/world/middle_east/sa/stat_04.html (accessed on February 12, 2016).

³²⁶ Ministry of Economy, Trade and Industry, ‘Press Release, Signature of investment treaty with Saudi Arabia’ (May 2013). Available at: https://www.mofa.go.jp/mofaj/press/release/press6_000163.html (accessed on August 20, 2018).

3.2.1 Prevalence of Saudi – Japan joint venture projects

As discussed in Chapter 2, ten Saudi – Japan joint venture companies were established between 1975 and 1990, based on the governmental economic cooperation agreement in 1975, mainly in petrochemical plant-related engineering and manufacturing industries. Above all, a massive petrochemical company, Eastern Petrochemical (SHARQ), made a record-high investment (1.89 billion Saudi riyals) in 1981 and represented an impetus for successful joint venture businesses between the two countries. In the 1990s, although regional instability and oil value slumps prevented the realization of large-scale projects, some joint venture companies were established. The number of new joint venture companies reached six between 1990 and 1999, and encouragingly increased to 20 between 2000 and 2009. As the list of major joint venture companies described in Table 3 below shows, the companies' business fields were extended to medical and health care, taking into consideration the shape and features of the Saudi population, but also to conventional petrochemical car industry, power supply, water and sewage, logistics and facilities maintenance, and financial sectors.

Table 3. List of Saudi-Japan joint venture companies, 1990 – 2010

Year	Name	Field	Type	Japanese Company	Saudi Company	Capital (SR Mil.)	City
1991	Arabian Industrial Construction Co.Ltd.	Plant construction engineering	LLC	Sumitomo Chemical Engineering	Ahmad al-Gosaibi & Bros.	3	Rabigh
1992	Unicharm Gulf Hygienic Industries	Manufacturing paper diapers and sanitary napkins	LLC	Unicharm	Al-Murjan Trading & Industries	94	Riyadh
1996	Saudi Arabian – Japanese Pharmaceutical (SAJA)	Manufacturing pharmaceutical products	LLC	Daiichi-Sankyo and Astellas Pharma	Tamer Group etc.	107	Jeddah
1997	AJIL Financial Services Co.	General leasing business	LLC	Mitsubishi and Mitsubishi UFJ Lease & Finance	Riyadh Bank and Zahid etc.	500	Jeddah
2002	International Methanol Co.	Methanol and butanediol	LLC	Japan Arabia Methanol	SIPC	330	Jubail

2006	PetroRabigh	Propylene and ethylene	JSC	Sumitomo Chemical	Saudi Aramco	750	Rabigh
2006	Suido Kiko Middle East	Water treatment engineering	LLC	Suido Kiko	Saudi Brothers Chemical	200	Jeddah
2009	J-Power Systems Saudi Arabia	Power/fibre submarine cables	LLC	Marubeni Metal and J-Power Systems	No partners	62.5	Tanajibu (Eastern province)
2009	Mizuho Saudi Arabia Co.	Advising and consulting on investment	JSC	Mizuho Security Group and Mizuho Corporate Bank	No partners	a/n	Riyadh

Source: Japan External Trade Organization

*LLC: Limited Liability Company *JSC: Joint Stock Company *SR Mil.: million Saudi Riyals

In addition to the existing gigantic petrochemical industry, these joint venture companies were established in consideration of characteristics of the Saudi industry and market demand. The demographic factor was one of them: youths' population makes up 46% (0-14: 27%, 15-24: 19%) of the Saudi total population.³²⁷ Secondly, many Saudi citizens have been suffering from chronic

³²⁷ Central Intelligence Agency, 'The World Fact book (Saudi Arabia)' (July 2015). Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html>

diseases, such as obesity and diabetes. As an example, prevalence of diabetes reaches approximately 24% of the Saudi population aged between 20 and 79.³²⁸ The demand for high-quality medical services has kept increasing. Japanese products are highly reputed in most of the industries despite its high cost. Actually, the joint venture business scheme was ideal for both countries as these projects have allowed to benefit both sides. For example, sanitary products of Unicharm are manufactured in the joint venture factory in Riyadh industrial city at a high quality for Saudi middle-class consumers. Unicharm's business success explains that they dispatched more than ten Japanese engineers and staffs from the beginning. After a few years of successful operation in Riyadh, they expanded their business market to Cairo. The pharmaceutical joint venture manufacturer SAJA still enjoys continuous demand in the Saudi market and plans to expand its manufacturing facility.³²⁹ Suido Kiko Middle East, using high quality Japanese sewage treatment technology and engineering, has expanded contracts to engineering works of sewage treatment and reuse in petrochemical and industrial parks. And finally, the leasing business of AJIL and financing business of Mizuho are some of the most in-demand industries among Saudi companies. These business fields were targeted at Saudi privatization.³³⁰

Each creation of a joint venture company required difficult and long negotiations. The author attended several meetings with Saudi senior officials

(accessed on March 10, 2016).

³²⁸ The World Bank, 'Diabetes prevalence (Saudi Arabia)' (2016). Available at: <http://data.worldbank.org/indicator/SH.STA.DIAB.ZS/countries/SA?display=graph> (accessed on March 10, 2016).

³²⁹ Author's business meeting with the CEO of Tamer group, a Saudi partner in SAJA (Jeddah, 2015).

³³⁰ Cordesman, *op.cit.*, pp.414-448 and Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.127-139.

and noted that the latter were focussing on Japan's most famous brands³³¹ and, as an example, strongly encouraging their Japanese counterparts to set up Toyota, Nissan or Sony manufacturing plants in Saudi Arabia. Conversely, the Japanese negotiators emphasized the fact that the joint venture companies required sustainable profitability and feasibility in principle. In the eyes of the Japanese delegations, Saudi officials were perceived as neglecting 'some principles of the market mechanism, which should include studies of profitable scale of the market, but also system of parts supply-chain, custom clearance procedure, quality of employees, and cost comparison with manufacturing location, for example, in China, Southeast Asian countries, and the Middle East.' It is clear that Saudi Arabia was in demand for more foreign investment, however, the same logic was used during the Arabian Oil Company right renewal negotiations as with the request for a railway construction project which lacked profitability calculations.

In addition, between 2010 and 2013, 10 Saudi – Japanese joint venture companies in niche industry were established. Some Japanese companies also expanded their business in Saudi Arabia by establishing an additional joint venture company. The total number of joint ventures reached more than 50 since the one was established in 1975 (even though some of them were dissolved due to the ending of the original business plan). As the list of 10 major joint ventures described in Table 6 below shows, new economic sectors were concerned, including the maintenance and technical services in manufacturing industries.

³³¹ In a business meeting with the author, a German embassy staff in 2005 once disclosed privately that he had encountered the same demands, the Saudi negotiators requesting "to bring Mercedes factory" into Saudi Arabia.

These industrial needs were common among many Saudi infrastructure or facility owners. While many foreign companies usually offered to build or replace new manufacturing lines, expecting abundant Saudi financial capacity, Japanese companies offered specialized engineering works for the existing facility's life-extension, improvement of efficiency, and energy-saving for the Saudi facility owners. Although the replacement and new construction works were generally more profitable and less elaborate, Japanese companies regarded these engineering demands as an important factor to continue business on the Saudi market.³³² Additionally, many Japanese companies opened branch offices in Riyadh for further business opportunities in energy efficiency and cost-saving. These were key factors enhancing bilateral relations after 2010.

In addition to the existing gigantic petrochemical joint ventures, new joint venture companies were established based on a more specific industrial demand within the Saudi energy sector. For example, Kintetsu World Express provided international export-oriented customers in Saudi Arabia with traceable logistics services including custom clearance. This joint venture received some SJAHI graduates in Jeddah. Electrical equipment manufacturer Hitachi and a logistics and plant engineering company, Sankyu, joint ventured with Saudi partners to provide maintenance and technical services for improving efficiency of the existing facilities through technical renewal. Additionally, a profitable joint venture insurance company was established.

³³² Author's interviews with Japanese companies' directors who established a joint venture company or an office in Saudi Arabia (Jeddah and Riyadh) in 2015. In the interview, a Japanese managing director at the logistics and engineering company acknowledged the diversified niche business opportunities in many industries, saying: 'Saudi people have consciousness of 'what a waste' (or 'exclusion of waste') which is a Japanese basic understanding of 'taking care of things without excluding a waste' and 'managing all the resources' in the company'.

In January 2013, Isuzu Motors Japan started the first phase of the commercial assembling production of medium-sized trucks in Dammam. In addition to the substantial need for durable truck vehicles in the Saudi harsh desert environment, the commercial assembling production advantages behind Isuzu's decision to manufacture trucks in Saudi Arabia related to the continuous demand of infrastructure construction, the expectation of the improvement of transportation quality and the increase in frequent logistics by the expanded needs of high-standard and value-added (sensitive) industrial products.³³³

Table 6. List of 10 major joint venture companies, 2010 – 2013

Year	Name	Service	Type	Japanese Company	Saudi Company	SR Mil.	City
2010	Arabian Japanese Membrane Company	Manufacturing of R/O membrane elements	LLC	Toyobo, Itochu Plantech	Acwa Holdings	23.6	Rabigh
2010	Dhuruma Electricity Company	Power station management	LLC	Sojitsu	GDF Suez, Saudi Electric Co	0.4	Rabigh
2010	Kintetsu World Express	Logistics and custom clearances	LLC	Kintetsu World express	Integrated Transport. Co. and	2.5	Riyadh

³³³ Author's interview with JETRO staffs, Riyadh office (February 2013).

	(Saudi Arabia)				Mohwarean Int'l Group		
2011	Isuzu Motors Saudi Arabia	Truck assembling	LLC	Isuzu Motors	No Saudi partner	n/a	Dammam
2012	Hitachi Saihati Engineering Services	Motors, pumps, Compressors (technical services)	LLC	Hitachi Plant Techno.	Technical Enterprise Co.	19.5	Dammam
2012	Alinma Tokio Marine	Islamic insurance services	LLC	Tokyo Marine and Nichido Fire Insur.	Alinma Bank and SABIC	2.0	Riyadh, Jeddah and Dammam
2013	Hitachi Plant Saudi Arabia	Engineering, Procurement and Construction	LLC	Hitachi	Musaed al-Seif and Sons, El-Seif Engineering	26	Riyadh
2013	MH Power Systems	Gas turbine maintenance	LLC	Mitsubish i-Hitachi Power Systems	n/a	20	Dammam
2013	Sankyu-ARCC Saudi	Oil refinery facilities maintenance	LLC	Sankyu	ARCC	7.5	Jubail

		services					
2013	Daikin Air Conditioning Saudi Arabia	AC sales and maintenance	LLC	Daikin Europe	Al-Rajhi group	n/a	Riyadh

Source: JETRO

*LLC: Limited Liability Company *JSC: Joint Stock Company

3.2.1(1) King ‘Abd Allah’s diplomacy towards Asia: Policies in the balance

In Saudi Arabia, foreign policy is not solely influenced by the personality of an individual king, even though he is an absolute monarch. Features of Saudi diplomacy are weighted in adaptation of frequently changing political systems of the surrounding states, and furthermore, changing American foreign policy in the Middle East. The fifth King Fahd died in August 2005 and Crown Prince ‘Abd Allah acceded the throne to become the sixth king. King Fahd had been repeatedly hospitalized since a cerebrovascular accident in 1995, while Crown Prince ‘Abd Allah in effect had held since then the reins for all substantial decisions on domestic policy-making and diplomacy.

King ‘Abd Allah’s foreign policy was based on consideration of power balance among the princes. He was born in 1923 as the tenth son of King ‘Abd al-‘Aziz by

his eighth wife.³³⁴ His mother was Al-Fahda bint Asi al-Shuraim, of the Shammal tribe, and of the House of Al-Rasheed native from the north-eastern region of the Arabian Peninsula. Her family was influential in the region and a historical rival to the House of Al Sa'ud. Therefore, King 'Abd Allah did not belong to the powerful faction of the 'Sudairi Seven'.³³⁵

In 1962 he took office as commander of the National Guard. After holding the position of second vice-Prime Minister, he was appointed Crown Prince as well as becoming the first vice-Prime Minister on the occasion of the enthronement of King Fahd in 1982. The fact that he was the commander of the National Guard was significant in terms of the loyalty he received from influential tribes.

In the 1980s, it was argued that on Saudi foreign policy, King Fahd had an innovative attitude, whilst Crown Prince 'Abd Allah was perceived as more conservative.³³⁶ 'Abd Allah indirectly objected to the pro-American foreign and oil policy that Fahd promoted. This caused antagonistic relationships between factions of the royal family. If there was a difference of opinion, it was restricted to the private circles of domestic political decision-makers, though.

In brief, whilst King Fahd had intensified the alliance with the United States, King 'Abd Allah's foreign policy aimed at broadening relationships with other Middle Eastern states. That process had started earlier when, as Crown Prince,

³³⁴ Some experts argue that he was born in 1924, which, if so, means he would be of the same age as Crown Prince Sultan. Brian Lee, *A Handbook of Al-Saud ruling family of Saudi Arabia* (London, Royal Genealogies, 1980): p.44.

³³⁵ The Sudairi Seven are a close-knit alliance and have wielded great power compared to other members of the royal family. However, for decision-making on any significant issue, it is customary for the royal family to require acknowledgement and Islamic authorization from the religious establishment. This body can even restrain influential members of the royal family from embarking on many key projects.

³³⁶ Martin, Douglas, 'Saudi Arabia's King Fahd dies; Abdullah named new leader', *The New York Times*, August 1, 2005.

he had improved diplomatic relations with Iranian President Rafsanjani.³³⁷ However, at the same time as he was broadening Saudi international relations,³³⁸ 'Abd Allah maintained favourable relations with the United States – given that the continuity of diplomatic relations with the latter still had to be prioritized in Riyadh. Even if articles in the local press insisted on the fact that King 'Abd Allah criticized the American foreign policy in the Middle East,³³⁹ these were intended to act as an outlet for the accumulated anger and frustration of the Saudi population against the United States, in the hope to calm them down and to preserve the special relationship.

Saudi criticism against the United States were obviously not fully made up and were caused by changes in the domestic and foreign political environment surrounding Saudi Arabia during the Gulf war. Since 1995, when 'Abd Allah took over substantial political leadership roles, he had to adapt his foreign policy and his internal reforms to the extremely volatile global and domestic situation. Potentially, the latter could have led to the collapse of the House of Al Sa'ud. Certain major ramifications of the Gulf War, including the introduction of cosmetic democratic reforms, pressure from human rights activists, and the raised profile and political influence of the domestic religious establishment, were perceived by the Saudi leadership as vital threats to the existing ruling order.

To counter external threats, the Saudi regime had to accept the presence of the American air force on its territory, thus depending on the United States for much of its external security whilst at the same time exacerbating its internal

³³⁷ Robin Wright and Shaul Bakhash, 'The U.S. and Iran: An offer they can't refuse', in *Foreign Policy*, No.108 (1997), p.128.

³³⁸ Personal interview with Tim Niblock, Exeter, 3 July 2008.

³³⁹ Bakr, Amena and Warren Strobel, 'Saudi Arabia warns of shift away from U.S. over Syria, Iran', *Reuters*, October 22, 2013 and Bronson, *op. cit.*, p.231.

security problems. This unpleasant choice for the Saudi government slowly became deeply problematic. This controversial stationing of US military forces in Saudi Arabia probably indirectly explains why the majority of 9/11 criminals were Saudi nationals. In this critical situation, King 'Abd Allah took initiatives to manage the impending problems. He approved of a crackdown on domestic Islamist radicals and had to work hard to improve diplomatic relations and public relations between Saudi Arabia and the United States after 9/11.

However, during the second Gulf War (Iraq War) of 2003, 'Abd Allah did not agree to the use of foreign air bases inside Saudi Arabian territory. Accordingly, American armed forces withdrew from the Saudi Arabia. But the second Gulf War created some extra problems for King 'Abd Allah's administration, especially those associated with Iraq which shared an extensive common border with Saudi Arabia. Assistance was given to the Iraqi reconstruction programs. There was a continued clampdown on domestic radicals who to some extent were revitalized by the Gulf War situation.

In relations with Asian countries, King 'Abd Allah placed diplomatic priorities in India and Pakistan for counterterrorism purposes as well as keeping relations with East Asian countries for economic development. As previously mentioned, Saudi Arabian diplomacy has been aware of Asian factors since the 1950s, particularly in terms of diplomatic relations with Japan and in the 1990s with China.³⁴⁰ However, political and economic exchanges had remained limited for decades due to the relatively low political priority for the implementation of a coherent Asian foreign policy until King 'Abd Allah's sovereignty.

³⁴⁰ Jaffe, Amy Myers, and Steven W. Lewis, 'Beijing's oil diplomacy', in *Survival: Global Politics and Strategy*, Vol.44, Issue 1, (2002).

Indeed, Saudi Arabia strengthened diplomatic ties with Asian countries in the 2000s, just after regular economic ties had been established. This timing corresponds with Aramco's initiatives to explore downstream oil business in Asia. In November 2012, Aramco established a new company, Saudi Aramco Asia Co., comprised of (1) Aramco Far East (Beijing) Business Services Co., (2) Aramco Asia Japan,³⁴¹ and (3) Aramco Asia Korea. The Far East region has been the destination of two-thirds of total Aramco oil exports. The importance of Saudi diplomatic support for the United States had been closely related to the latter's Middle East foreign policy.³⁴² As soon as the United States strategy of rebalancing military forces begun, the Saudi government started to implement its diplomatic shift to Asia.³⁴³

The first choice of foreign visits by King 'Abd Allah, as new king, in January 2006 was China, India and other Asian countries. It was presented by local media as 'a strategic shift' for 'a new era' between the kingdom and Asian countries.³⁴⁴ In April 2006, Crown Prince Sultan too visited Japan and Pakistan. In return, the same month, Chinese President Hu visited Saudi Arabia, followed by Indonesian President Yudhoyono and Filipino President Arroyo. The fact that the two leaders of China and Saudi Arabia had made mutual visits within three months was a particularly exceptional diplomatic event. The significant factor that King 'Abd Allah chose China for his first foreign visit after the coronation was identified as a diplomatic diversification. One of the reasons for the Saudi government's political

³⁴¹ Aramco had a representative office in Tokyo since 1984.

³⁴² Gause, F.Gregory III, 'Saudi Arabia in the new Middle East', in *Council on Foreign Relations*, Special Report No.63 (December, 2011), pp.22-31.

³⁴³ Daniels, Owen, 'Saudi Arabia pivots to Asia (for now). The Kingdom is looking east, but don't count out relations with the US', *The Diplomat*, March 30, 2017.

³⁴⁴ Pant, Harsh V., 'Saudi Arabia Woos China and India', in *Middle East Quarterly*, Vol.XIII No.4 (Fall, 2006), pp.45-52.

benefits with China was the fact that it is a United Nations Security Council permanent member as well as a huge oil importer. In the mid-2000s, China relied on imports for 40% of its national oil demand and there was no doubt that imports would increase further in the future,³⁴⁵ while Saudi Arabia was regarded as one of the few countries that could be a stable oil supplier to China. Aiming at an international presence, Saudi Arabia took advantage of being an influential oil supplier to China and tried to forge indispensable economic ties with them.

Under the reign of King 'Abd Allah, the late Crown Prince Sultan's visit to Japan and Pakistan was easy to understand as complementing King 'Abd Allah's new Asian diplomacy. In addition, the King and Crown Prince also visited Singapore and Malaysia respectively, focussing on the promotion of investments in Southeast Asia and the encouragement of academic exchanges. Saudi news agencies reported in detail on these visits, describing them as a part of a 'New Look East policy', the new foreign policy of the government.³⁴⁶

3.2.1(2) Accelerated official visits for substantial multi-layered relations

Few studies of significance examined the official visits between Saudi Arabia and Japan. However, the bilateral top officials' meetings were important in terms of indicating commitment. In this section, some noticeable governmental visits are

³⁴⁵ The Institute of Energy Economics, Japan IAEA Seminar material, 'Energy security and sustainability for Asia in the 21st century: Post-Fukushima energy atrategy', in *IEEJ Energy Seminar* (December 2012).

³⁴⁶ Anand Giridharadas, 'Saudi Arabai pursues a 'look-East policy'', *The New York Times*, 26 January, 2006.

described in detail. To summarize, the initiative which Japanese Prime Minister Hashimoto and Crown Prince 'Abd Allah implemented in the late 1990s were critical, as they led the way for multi-layered bilateral relations. This was followed and reinforced by a substantial number of other visits involving respective heads of state and high-ranking officials, especially under incumbent governments' leaders Japanese PM Shinzo Abe and King Salman.³⁴⁷

As shown in chapter 2, the two countries' official visits in the 1980s were focussed on both political and economic issues, but cultural exchanges were encouraged too. Above all, the visits of Japanese imperial and Saudi royal family members represented the most prominent form of diplomatic approach between the two countries. The Japanese Crown Prince and Princess were given an audience with King Khaled and Crown Prince Fahd in February 1981, while Saudi Minister of Interior Prince Naif made a state visit to the Japanese Emperor and Crown Prince in March 1987. Saudi Prince Nawaf bin 'Abd al-'Aziz, on behalf of King Fahd, attended the ceremonies of accession to the throne of the new Japanese Emperor in Tokyo in November 1990. In addition, the Japanese Crown Prince and Princess visited Saudi Arabia, Qatar, Oman and Bahrain in 1994. These royal visits triggered mutual political economy benefits after the 1990s.

After the early 1990s, amid a period of a changing regional political economy in Asia, Japanese Prime Minister Hashimoto visited Saudi Arabia in November 1997, following in the footsteps of Prime Minister Fukuda in 1978, Prime Minister Kaifu in 1990 and Prime Minister Murayama in 1995. Hashimoto was given an audience with King Fahd and Crown Prince 'Abd Allah to discuss and promote a

³⁴⁷ The detailed officials' exchanges are listed in Appendix 2.

new package of bilateral cooperation called the 'Comprehensive Partnership toward the 21st Century'. Prime Minister Hashimoto suggested four new fields of bilateral cooperation, in human resource development, environment issues, medical, health care industry and science technology, and culture and sports, in addition to the existing wide range of economic cooperation in which Japan had established advanced technologies. He appointed each undersecretary as the responsible official to proceed with those agendas.³⁴⁸

In particular, cooperation in the human resource development field was offered in consideration of the prolonged social issues in the kingdom, envisaging the achievement of bilateral, long-term benefits through the exchange of technicians and engineers. Prime Minister Hashimoto expressed his opinion that Saudi-Japan relations should not be limited to the field of economy and business, but should be extended to new business fields in order to establish multidimensional bilateral relations.³⁴⁹ He also expressed that he regarded official exchange visits as a valuable factor in enhancing the partnership, appreciating the visits by King Fahd, Governor of the Riyadh region Prince Salman and Minister of Higher Education Khaled al-Angari. Furthermore, Hashimoto informed King Fahd that Japan was inviting Defence Minister Prince Sultan and confirmed the dispatch of the Japanese Minister of Economy, Trade and Industry to Saudi Arabia to attend the seventh Japan – Saudi Arabia Joint Committee meeting in the kingdom.

³⁴⁸ Ministry of Foreign Affairs of Japan, 'Press Conference by the Press Secretary November 11, 1997' (November, 1997). Available at: <http://www.mofa.go.jp/announce/press/1997/11/1111.html#7> (accessed on February 8, 2016).

³⁴⁹ Ministry of Foreign Affairs of Japan, 'Summary of the meeting with King Fahad and Crown Prince Abdullah November 8, 1997' (November, 1997). Available at: http://www.mofa.go.jp/mofaj/kaidan/kiroku/s_hashi/arc_97/saudi97/hyoka.html (accessed on February 9, 2016).

Additionally, Hashimoto offered to organize regular undersecretary meetings on political economy issues. Japan also envisaged to discuss the same scheme with other GCC states, aiming towards new advanced relationship with them.

The response of King Fahd to Prime Minister Hashimoto's ideas above was unsurprisingly positive, acknowledging Hashimoto's suggestion of the Agenda as feasible and a high priority project for the King.³⁵⁰ The commitment by both governments to the Agenda meant an official responsibility for its progression.

In October 1998, Crown Prince 'Abd Allah officially visited Japan while Governor of Riyadh Prince Salman had made an official visit to Tokyo in April the same year. During the visit, Crown Prince 'Abd Allah and Prime Minister Obuchi signed and issued a 'Joint Statement Concerning Cooperation directed toward the 21st Century' and witnessed the signing ceremony of the 'Japan-Saudi Arabia Cooperation Agenda', but also of the 'Joint Announcement on Cooperation in the Field of Youth, Sports and Culture between the Government of Japan and the Government of the Kingdom of Saudi Arabia', and of the 'Japan-Saudi Cooperation on an Automobile Technical Training Institute'. Crown Prince 'Abd Allah also made a state visit to the Emperor and other imperial family members.

Saudi-Japanese official visits were significantly accelerated in the 2000s, as illustrated in Appendix 2. The Japanese government continued to confirm its commitment agreed in the previous meetings, but also organized a functional framework and a task force team to implement the commitment³⁵¹ and requested

³⁵⁰ *Ibid.*

³⁵¹ Illustrated by the tenth meeting of the Saudi – Japanese Joint Committee, held on May 10, 2010 in Tokyo, which was organized to monitor the commitments of the 1975 Agreement on Economic and Technical Cooperation. See Ministry of Foreign Affairs of Japan, 'Tenth meeting of the Saudi – Japanese Joint Committee, Summary of the record of the discussion' (2014). Available at: http://www.mofa.go.jp/region/middle_e/saudi/summary100510.html (accessed on

that the private sector supported the project and its activities. The reasons why the exchanges expanded in this period can be attributed to the fact that Japan needed to economically recover from the stagnated 'lost decade of Japan' (1992-2002)³⁵² by encouraging energy and petrochemical business with Saudi Arabia. Moreover, comprehensive bilateral relations and mutual understanding including Arab-Islamic factors were promoted as a consequence of 11 September attacks and regional turmoil in the Middle East.

In November 2000, former Prime Minister Hashimoto visited Saudi Arabia as a Special Envoy of the Japanese government and attended the International Energy Forum as well as held meetings with Crown Prince 'Abd Allah, Defence Minister Prince Sultan and Governor of Riyadh Prince Salman. In January 2001, Minister of Foreign Affairs Kohno too visited the kingdom, advocating political economy promotion, firstly through cultural discussions entitled 'Dialogue among Civilization with the World of Islam', secondly through increased cooperation on water resource development. Moreover a comprehensive dialogue on broader political development with King Fahd, Crown Prince 'Abd Allah, Governor of Riyadh Prince Salman and Minister of Foreign Affairs Prince Sa'ud was suggested.

Japan initiated a dialogue campaign with the Muslim world with the declared aim to deepen mutual understanding in relation to conventional politics, economy, and business agendas in 2003 and afterwards. Saudi Arabia was regarded as a principal counterpart in this context. In May 2003, Japanese Prime Minister

February 12, 2016).

³⁵² Hayashi, Fumio, and Edward C. Prescott, 'The 1990s in Japan: A lost decade', in *Review of Economic Dynamics* 5.1 (2002), pp.206-235.

Koizumi visited Saudi Arabia for discussion on bilateral relations with Crown Prince 'Abd Allah and made a courtesy call to King Fahd. A cultural programme was agreed on this occasion, with the dispatch of cultural exchanges and dialogue missions to Saudi Arabia and other Arab countries, in order to support the multi-layered relations (economy, cultural, and human resource development cooperation combined) by a 'deepened mutual understanding.' In addition, Saudi Minister of Economy and Planning Khalid al-Gosaibi and Minister of Commerce and Industry Hashim Yamani visited Japan and participated in the Japan – Arab Dialogue Forum in Tokyo to promote multi-dimensional dialogue between Japan and the Arab countries.

In September 2003, the embassy of Japan in Riyadh held an open symposium entitled 'Japan – Saudi Arabia relations: tradition and development', under joint sponsorship of the King Faisal Research Centre for the Islamic Studies. Controversial issues were discussed, such as the fusion of traditional values and modernization, the question of dialogue between civilizations, the fusion of civilization and culture, the Japanese experience of development since the Meiji era (1868 – 1912), the importance of human resource development and educational systems, and the history of Saudi Arabia – Japan relations, particularly in term of economic cooperation and academic exchanges. Concurrently, a special seminar for Saudi women was organized in a different venue at al-Nahda Philanthropic Society for Women in Riyadh. In a seminar with Saudi princesses and female intellectuals, Japanese fashion designer Hanae Mori expressed her philosophy of 'living in global while valuing own original

roots.³⁵³

In addition, the members of the mission made a courtesy visit to Governor of Riyadh Prince Salman, CEO of al-Faisaliah Group Prince Muhammad al-Faisal, and Secretary General of the King Khalid Philanthropic Organization Princess Bandari. On this occasion, Prince Salman underlined the importance of cultural dialogue, mentioning that 'many international problems can be attributed to inadequate mutual understandings, and concerning relations with Japan, it is possible to know each other more about traditions and customs behind each country's culture by strengthening cultural dialogue, not only for economic relations.' Furthermore, Prince Salman expressed that 'it is irrational to judge the people by their religions', and that 'many countries should intensively expand their national wealth focussing on economic growth and on the increase of people's income like Japan, instead of expanding their military'.³⁵⁴

In another meeting, Prince Muhammad noted that 'the concept of culture can be divided between vertical and horizontal culture, and the people, in a rapid transforming era, should cling to vertical culture transmitted by the ancestors. However, what is needed also is a horizontal culture, by contacts with different people across the borders. For example, the Roman Empire flourished through the contact with horizontal culture of Greece'.³⁵⁵ Finally, on the occasion of a meeting between the members of the mission and Shoura Council members, the

³⁵³ Ministry of Foreign Affairs of Japan, 'Cultural exchanges and dialogue mission: Report and suggestions' (October, 2003). Available at: http://www.mofa.go.jp/mofaj/gaiko/culture/koryu/kuni/jigyo/pdfs/houkoku_teigen.pdf (accessed on February 8, 2016).

³⁵⁴ The author attended this meeting (as an embassy staff) in Prince Salman's office in Qasr al-Hukm, Riyadh in 2003. The author attended most of the officials' exchanges events in Riyadh at the time and wrote several official cables to Tokyo.

³⁵⁵ The author attended this event. Ministry of Foreign Affairs of Japan, 'Cultural exchanges', *op-cit*.

latter expressed their appreciation of Japan's cooperation in technical and vocational training, expecting further advancement as a result.

In April 2004, Saudi Minister of Petroleum and Mineral Resources 'Ali al-Na'imi visited Japan and, in May of the same year, Japanese Special Envoy Kohmura visited Saudi Arabia for further discussions to extend economic relations. In January 2005, a Japanese cultural delegation headed by former Prime Minister Hashimoto participated in the third Japan – Arab Dialogue Forum in Riyadh. The funeral ceremony of the late King Fahd in August 2005 was attended by the Japanese Crown Prince and Special Envoy Hashimoto.³⁵⁶

On the other hand, a symposium entitled 'Tradition and Modernization' was held in September 2005 at the King Faisal Centre for Islamic Research in Riyadh. Japanese scholars explained the influence of the victory in the Russo-Japanese War of 1905 and of Japan's economic development after the Second World War on neighbouring countries as well as on Middle Eastern countries. Following the Saudi participants' interest in Japan's development process balancing tradition and modernization, discussions took place on the role Islam played in modernization of Arab societies.³⁵⁷

The year 2005 marked the 50th anniversary of the establishment of bilateral diplomatic relations, resulting in the organization of many cultural performances in both countries.³⁵⁸ Saudi Arabia officially participated in World Expo 2005, in

³⁵⁶ Ministry of Foreign Affairs of Japan, 'Expression of Condolences by the Crown Prince and Former Prime Minister Ryutaro Hashimoto to Saudi Arabia on the demise of King Fahd Bin 'Abd al-'Aziz al Sa'ud of the Kingdom of Saudi Arabia' (August 3, 2005). Available at: <http://www.mofa.go.jp/announce/announce/2005/8/0803.html> (accessed on February 8, 2016). The Japanese Crown Prince also attended the funeral services of Crown Prince Naif in 2011 and Crown Prince Sultan in 2012.

³⁵⁷ Ministry of Foreign Affairs of Japan, Classified diplomatic cable dated October 19, 2005.

³⁵⁸ Embassy of Saudi Arabia in Japan, '50 years of relationship: Cooperation in the 21st

Aichi. In April 2006, Saudi Crown Prince Sultan visited Japan and agreed to establish a 'strategic and multi-layered partnership' in the joint statement between the two countries, and it presented an opportunity for further development and cooperation. On this occasion, the Saudi government decided to dispatch a number of Saudi students to Japan as part of their strategy of a new 'Look East Policy'.³⁵⁹ In April 2007, a large-scale Japanese business mission headed by Prime Minister Shinzo Abe visited Saudi Arabia and declared a 'joint statement on the roadmap for new dimensions to the strategic and global partnership between Japan and Saudi Arabia'. During this visit, the Japan Business Federation co-organized the Japan-Saudi Arabia Business Forum together with the Council of Saudi Chambers, in order to promote bilateral economic relations. On another occasion, Japanese Minister of Economy, Trading and Industry Amari attended the ninth Saudi-Japanese Joint Committee as well as the Asian Roundtable meeting on oil and natural gas production and consumption to follow up on Prime Minister Abe's commitment and agenda, and exchanged views with the Saudi government on a broader economic partnership.³⁶⁰

Finally, in November 2009, on the occasion of a ceremony to celebrate the completion of a huge petrochemical complex by the joint venture company of

Century' (2005). Available at: <http://www.saudiembassy.or.jp/50years/En/index.htm> (accessed on February 9, 2016).

³⁵⁹ Yamada, *op. cit.*. According to *al Watan* newspaper (February 7, 2016), the latest number of the exchange students were 205,360.

³⁶⁰ Other important official exchanges in 2008 included the visits of Japanese parliamentary secretary of MOFA Mr. Uno to Riyadh in March, on the occasion of the 6th Seminar of the Dialogue among Civilizations between Japan and Islamic World; of Japanese Minister of Education, Culture, Sports, Science and Technology Tokai and Special envoy of PM Okuda to Riyadh in May; of Japanese Minister of Economy, Trade and Industry Amari to Riyadh in June, as part of an emergency meeting on oil producers and consumers, initiated by Crown Prince 'Abd Allah; and of a Japanese official delegation headed by Aizawa, Chairman of the budgetary committee of the House of Representatives to Riyadh in July, to expand relations with the Saudi Majlis al-Shura.

Saudi Aramco and Japanese Sumitomo Chemical Co., Petro Rabigh, Japanese Special Envoy Iwakuni, former Prime Minister Fukuda, and former chairman of the House of Representatives Kohno visited Saudi Arabia and were received by Saudi Minister of Petroleum and Mineral Resources 'Ali al-Na'imi.

As mentioned above, these official visits were aimed at shifting the economy-centric relations towards comprehensive multi-layered ones involving cultural dialogue as well as practical approaches to industrial diversification and human resource development. In the 1990s and 2000s, the JICA dispatched Japanese experts and engineers, but also organized long- and short- term technical training programmes in Japan.³⁶¹ JICA's interdisciplinary approach to the Saudi government since 1975 was substantially effective in its long-term strategy and meant that it could establish reliable relations encouraging cost-sharing programmes, which finally materialized in the construction of the Saudi – Japan Automobile High Institute (SJAHI) in 2002 (see section 3.2.2). During that period, the Saudi government was relying on foreign advisors and consulting companies for their organizations' capacity building.

3.2.1(3) The end of the right of interests of the al-Khafji oil field

Saudi Arabia's economic policy between 1985 and 1999, termed as 'constrained development' by Niblock, was a transitional period between domestic basic

³⁶¹ For a track record of JICA's activities in Saudi Arabia between 1976 and 2012, please see Appendix 3.

infrastructural development and advanced domestic reform.³⁶² On the other hand, in terms of oil development policy, it was a period of expansion of oil-refining facility construction abroad.³⁶³ It was Saudi Arabia's strategy to raise the Saudi-produced oil share in the global market by steadily supplying more than 50% of their crude oil to these refinery facilities.³⁶⁴ In practice, Aramco achieved its business target by establishing joint venture companies for refining crude oil with, for example, SsangYong (South Korea),³⁶⁵ Petron (The Philippines),³⁶⁶ Motor Oil (Greece)³⁶⁷ and Texaco (USA). Japan was, of course, a potential refinery joint venture partner for Saudi Arabia which proposed a joint refinery business offer to a Japanese oil company, Nippon Oil Co. Ltd., in 1991. It resulted in a mutual agreement on a joint venture project (refinery capacity 450,000b/d, location at Jubail industrial city) after conducting a feasibility study for the project.³⁶⁸ This agreement was a simple business-oriented project for commercial benefit between Aramco and a Japanese oil company. However, the Japanese government, which had concerns regarding the extension of its oil development interest in Khafji, intervened in the refinery project, calling for a negotiation to upgrade the agreed commercial-project to a 'semi-governmental

³⁶² Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, pp.104-105.

³⁶³ Cordesman, *op. cit.*, vol. 2, pp.467-473.

³⁶⁴ Cordesman, Anthony H., and Khalid R. Al-Rodhan, *The changing dynamics of energy in the Middle East*. Vol. 2. (Connecticut: Greenwood Publishing Group, 2006): pp.209-211.

³⁶⁵ 'South Korea's Ssangyong to sell stake in oil refinery to Aramco', *The Wall Street Journal*, November 23, 1998.

³⁶⁶ 'Philippine-Aramco joint venture wins endorsements for keeping oil prices cheaper', *Arab News*, May 7, 2005.

³⁶⁷ 'Aramco completes Motor Oil deal', *Al-Bawaba news*, November 23, 2005.

³⁶⁸ Miyazaki, Kazusaku, 'Saudi Arabia to Kuwait no Sekiyu sangyo kozo (Oil industries in Saudi Arabia and Kuwait)', in *The Institute of Energy Economics, Japan (IEEJ)* (February, 2004) (in Japanese). Available at: <http://eneken.ieej.or.jp/data/pdf/831.pdf> (accessed on March 6, 2016).

project' with facility expansion in 1992.³⁶⁹ However the Saudi government answered negatively. Furthermore, the leadership coordination among the involved Japanese oil companies did not function properly. As a result, this caused political concern in Saudi Arabia, and the commercial-oriented business between Aramco and Nippon Oil was cancelled as a result.³⁷⁰

This event had a direct adverse effect on subsequent negotiations regarding the Khafji oil interest extension, despite the fact that the Arabian Oil Company had been able to continue its steady oil operation since 1960.³⁷¹ After 1992, governmental negotiations were pushed forward carefully and positively, however, the situation soon reached an impasse and no progress could be made.³⁷² In the seemingly lopsided negotiations proposed by Saudi Arabia, two difficult conditions were posed by the Saudi side that Japan could not accept. It was first proposed to increase crude oil export to Japan from one million barrels per day to, at least, 1.5 million b/d, based on a new long-term contract. Furthermore, the Saudi side requested an increase of Japanese investments in Saudi industries, including the construction of a mine railway worth two billion US dollars.³⁷³ Amid improved and diversified oil-purchasing channels on the global market, these requests were extremely difficult to accept by the Japanese government, in terms of both technical and commercial factors. The Japanese government was not in a position to allocate the increased volume of oil imports from Saudi Arabia to domestic oil companies. The refinery cost of the Khafji's heavy crude oil was

³⁶⁹ Nakajima, *op. cit.*, pp.212-217.

³⁷⁰ *Ibid.*, pp.215-216.

³⁷¹ Arabian Oil Company, *op. cit.*, pp.48-49.

³⁷² Sankei Shimbun Tokyo Keizai Bu (Sankei Shimbun news Tokyo Economic Bureau), *Shigen shookoku Nippon no chosen (The challenge of resource-scarce Japan)* (Tokyo: Sankei Shimbun sha, 2007): pp.89-91.

³⁷³ *Ibid.*

relatively expensive due to its rich components of sulphur.³⁷⁴ Moreover, regarding the large-scale investment in the mine railway construction project, the Saudi government assigned the young Prince 'Abd al-'Aziz bin Salman Al Sa'ud, who was Deputy Minister of Petroleum and Mineral Resources at the time, as a governmental negotiator on the project.

This mine railway construction project was originally designed and planned by the Ministry of Petroleum and Mineral Resources, and the governmental strategy was to utilize Japan's exclusive investment in return for financial consideration of extension of the right of interests for the Khafji oil field development.³⁷⁵ The conditions of the railway project offered by the Saudi government were as follows (regarding Japan's total investment amount): private finance initiative; building and operating and transfer (BOT) for 10-20 years; a 1,400km-long railway for north-east linkage. This amounted to a total project cost of two billion US Dollars and annual administration expenses of 100 million US Dollars.

The Japanese government immediately organized an expert team and carried out both technical and financial feasibility studies through several field investigations. It was concluded that the project was technically feasible, however, financially unviable; in particular, profitability could not be expected in consideration of the huge construction and annual administration costs during the long project period.³⁷⁶ In June 1999, i.e. six months before the expiry of the existing Khafji agreement, the Japanese government offered an alternative called 'Proposal for Promotion of Japan-Saudi Arabia Cooperation - June 1999'. The

³⁷⁴ Nakajima, *op. cit.*, pp. 222-223 and 228-232.

³⁷⁵ *Ibid.*, p.226.

³⁷⁶ Penn, Michael, 'The vicissitudes of Japan-Saudi relations', in *Comparative Islamic Studies*, (2011), pp.295-311.

offer by the Japanese government included: 1) the assignation of 600 billion Japanese Yen (5.3 billion US dollars, composed of two-thirds of public funds and the rest from the private sector) to finance Saudi-Japan joint projects (petrochemical, electricity, water desalination, etc.) for the next ten years; 2) Japan's official support for Saudi Arabia's WTO application process; and 3) Japan's financial and technical support for the mine railway project.

While the offer included concessions from the Japanese government, the Saudi government did not answer positively, claiming that it contained no concrete project except the railway one. Prince 'Abd al-'Aziz persisted in the negotiations regarding the railway construction project until the last moment, though.³⁷⁷

The negotiations for renewal closed unsuccessfully, and AOC finally lost their right of interests in February 2000. As a result, half of the right of interests (approximately 150,000 barrels per day) was requisitioned by Saudi Arabia. In addition, AOC also lost interests in Kuwait in 2003. However, AOC benefited from a crude oil supply contract with Kuwait until 2023.

To sum up, the successful business of AOC was a solid foundation for promoting business relations between Japan and Saudi Arabia as well as enhancing bilateral economic and technical cooperation. On the other hand, although the history of AOC still has an influence on many bilateral exchanges and contributes significantly to both countries' bilateral relations, AOC's failed negotiations of interests' extension and the lessons learnt could provide clues as to how Japan would survive in the Saudi Arabian business market.³⁷⁸ Nakajima

³⁷⁷ Maeda, Takayuki, *Saudi Kobutsu tetsudo kensetsu no kokonotsu no nazo (The nine riddles on mineral railway construction project in Saudi Arabia)* (in Japanese, 2009). Available at: <http://www2.pf-x.net/~informant/saudi/saudimineralrailway.htm> (accessed on March 12, 2016).

³⁷⁸ Kandil, Ahmed, *The Political economy of international cooperation between Japan*

compares AOC with the United States' oil company Chevron which, by contrast, was successful in extending their right of interests (for 30 years from 2009) in the Wafra oil field,³⁷⁹ located in the neutral zone, and analyzed the difference of approach. According to him, Saudi Arabia highly appreciated Chevron's new development investment and technology transfer of vapour injection for expanded production.³⁸⁰ Although the production was suspended for maintenance in May 2015,³⁸¹ the difference in the level of proactiveness between AOC and Chevron was substantial. AOC was unable to offer any new financial and technical investment after the 1980s. On the occasion of the 'International Energy Forum' in Riyadh in November 2000, Crown Prince 'Abd Allah repeatedly mentioned that the way how the al-Khafji cooperation ended was regrettable, while former Prime Minister Hashimoto replied: 'that issue was over already'. Crown Prince 'Abd Allah's remark appears rather ambiguous, however there was speculation on the Japanese side that he might have offered an opportunity to continue negotiations.³⁸²

A few years later, the Japanese Embassy in Riyadh had an interview with a Saudi senior official who clearly figured out that the reason for the failure of the al-Khafji negotiations was rooted in mutual misunderstanding due to cultural differences. He explained that the Saudi side felt that AOC had had limited

and Saudi Arabia: The Arabian Oil Company as a case study. (PhD dissertation, Sophia University, Tokyo: 2006): pp.21-61 (in Japanese).

³⁷⁹ Rather similar to al-Khafji, its reserves are estimated to amount to two billion barrels, with a production volume of 260,000 barrels per day.

³⁸⁰ Nakajima, *op. cit.*, pp.237-241.

³⁸¹ 'Saudi Chevron halting output at Wafra oil fields for maintenance', *Oil World Magazine* (May 12, 2015). Available at: <http://www.worldoil.com/news/2015/5/12/saudi-chevron-halting-output-at-wafra-oil-fields-for-maintenance> (accessed on 29 December, 2015).

³⁸² See Nakajima, *op. cit.*, p.236 and 'Japan tried to regain Al-Khafji concession', *Arab News*, August 19, 2001.

contribution to Saudi society's development when the right of interests was still effective. On the other hand, the Japanese side was embarrassed to face a long-standing corruption structure and unorganized negotiation process inside the Saudi government. In addition, the Saudi official pointed out that there were two American advisers inside Saudi Aramco at that time, who had an intention to exclude foreign capitals other than American ones out of Saudi upstream oil industry. He also explained that the Saudi government, from a strategic view, should have kept Japan as a non-US actor in the upstream oil sector, while the Japanese government should have employed an expert who was more familiar with the Saudi style of negotiations.³⁸³

3.2.2 Japan's experiences in the Saudi vocational training programme

The labour force in Saudi Arabia was estimated at approximately 12.3 million in 2017, divided between 3.1 million Saudi workers and 10.7 million of non-Saudi workers.³⁸⁴ In addition, illegal immigrants entered into the kingdom by taking advantage of pilgrimage in the past, so that these low-income workers make up a quasi-emigrant group of society and a substantial part of the work force in many regions of the kingdom. Despite the Saudi government's launch of a full scale Saudization campaign in the 2000s and early 2010s, the employment of foreign

³⁸³ Ministry of Foreign Affairs of Japan, Classified diplomatic cable dated February 27, 2006. The Saudi official belongs to the Murshid family, who is leading the al-Suba'i clan of the 'Anaiza tribe.

³⁸⁴ Central Intelligence Agency, 'The World Fact book (Saudi Arabia); Labour Force, Economy of Saudi Arabia', (2017). Available at: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/sa.html> (accessed on July9, 2018).

workers has remained prevalent in many sectors.³⁸⁵ Similarly to what can be observed in other Gulf monarchies, many foreign workers took up occupations, including governmental jobs, in the Saudi labour market and has been coupled to a high unemployment rate of young Saudis.³⁸⁶ As a result, the expectation on foreign countries, including Japan, to support human resource development was raised as part of the political and diplomatic agenda.

The Saudi government, by issuing royal decree no.30/M dated June 23, 1980, established the Governmental Organization for Technical Education and Vocational Training (GOTEVOT), after streamlining the existing three facilities of educational and vocational training at the Ministry of Education, Ministry of Labour and Social Affairs, and Ministry of Municipal and Rural Affairs at that time. After the restructuring of GOTEVOT, the Technical and Vocational Training Cooperation (TVTC) was established on August 27, 2007 by the Ministerial Cabinet Order no.268, under authorization of the Ministry of Labour. As of 2009, TVTC provided various training programmes to 118,707 Saudi youths in public training institutes and to 114,018 youths (159,441 in 2016) in joint TVTC-private institutes.³⁸⁷ The total number of public training institutes was 153, including the College of Technology, the High Technical Institute for Girls, and the Industrial Vocational Institute, in addition to 1,045 private institutes for boys and girls (945 in 2015).³⁸⁸

³⁸⁵ Niblock (with Malik), *The political economy of Saudi Arabia, op. cit.*, p.99.

³⁸⁶ Baldwin-Edwards, Martin, 'Labour immigration and labour markets in the GCC countries: national patterns and trends', in *LSE Global Governance paper* No.15, (2011).

³⁸⁷ Technical and Vocational Training Corporation (TVTC), 'TVTC trainees and graduates, Section 2 Accomplishments, Statute of Technical & Vocational Training Corporation' (2009). Available at: <http://www.tvtc.gov.sa/English/InformationCenter/Documents/Tech%20Edu%20Eng%2001to50%20pages.pdf> (accessed on February 9, 2016).

³⁸⁸ *Ibid.*

Science technology expertise and diligent work ethics have been considered to be the main engines of post-war reconstruction of the Japanese economy. In energy-scarce Japan, the government encouraged human resource development for an industrialized nation which indispensably necessitated various technicians and engineers.³⁸⁹ In this context, and despite regional instability caused by the Gulf war in the early 1990s, Saudi-Japanese cooperation in human resources development was strengthened thanks to the mutual trust and long-term exchanges between JICA experts and executive members of the Saudi leading provider of training, the TVTC.

This has been particularly the case since 2001, due to the active role played by the third president of TVTC 'Ali al-Ghafis, through his interests and trust in Japan's technical cooperation. In many occasions, 'Ali al-Ghafis expressed that he had learned a lot on technical vocational know-how from Japanese experts, particularly Eng. Oshima, JICA's chief advisor (electronics), who worked in Riyadh in the 1980s and 1990s.³⁹⁰ These personal relations would play a critical influence on the negotiation process related to the establishment of the vocational and training institute projects, as detailed below.

Under the leadership of TVTC, the Electronics Education Development Centre, was created. Designed by Dr. 'Ali al-Ghafis to raise the quality of education of the Saudi technical instructors to the level of their Japanese counterparts, it has relied on and spread the Riyadh Electronics Institute's proven curriculum, training programmes, and educational materials nationwide by establishing regional

³⁸⁹ Kawada, Hisashi, and Solomon B. Levine, *Human resources in Japanese industrial development*. (New Jersey: Princeton University Press, 2014): pp.3-22.

³⁹⁰ The author had several meetings with 'Ali al-Ghafis and his advisors in relation to the establishment of Saudi Electronics and Home Appliances Institute (SEHAI) in 2009 and 2010.

Technical Colleges in the kingdom and officially requested Japanese cooperation in October 1997.

Moreover, the Saudi government took the initiative to establish the Development and Training Centre (DTC) in Riyadh in 2002. The DTC has proposed fifteen different technical courses with a quality level equal to technical colleges for Saudi instructors. Japanese cooperation was particularly critical to the development of three of the courses: Machinery, Electronics, and Construction for three years from September 2003. The role of Japan's cooperation was primarily to improve the educational background of technical college instructors and to produce qualified college graduates in the kingdom educated by those instructors. The cooperation was also assumed to indirectly contribute to the promotion of the Saudization campaign. While Japan's cooperation here can be considered as successful, a further extension of the cooperation was not possible given that Saudi Arabia was not included on the list of countries prioritized by overseas development assistance. According to a former Japanese engineer, who has been teaching (and participating in technology transfer) in the DTCs since 2004, the German Development Corporation (GIZ) had quickly managed to supersede JICA role when they learned that the Japanese government would not pursue the cooperation for DTCs. In addition, a five-year Japanese language course was established at the King Sa'ud University's Department of Languages and Translation (Asian Languages) in September 1994 through the dispatch of a Japanese teacher from the Japan Foundation. This language course is the only institution which grants

a bachelor of arts (BA) in Japanese in the Gulf monarchies.³⁹¹

However, as already mentioned above, by far the most successful achievements of the cooperation between the Japanese government and the TVTC in education and vocational training are the establishment of three vocational and training institutes between 2002 and 2009. The first institute, the Saudi – Japan Automobile High Institute (SJAHI), located in the suburb of Jeddah and established in 2002, is specialized in vehicle repair and maintenance. This project was the last official development aid project supervised by the Japan International Cooperation Agency (JICA).³⁹² Both governments collaboratively provided land, finances and engineering support for facilities to build the institute, and its reputation was strong due to its scale and quality. The second institute is the High Institute for Plastic and Fabrication (HIPF), established in Riyadh in 2007 in celebration of the large-scale success of the petrochemical joint venture manufacturing company, SHARQ (Mitsubishi group and SABIC) specializing in training processing and fabricating plastic materials. This institute represented a successful joint venture business between Japan and Saudi Arabia and implied a social contribution for Saudi Arabia. The training machine and facilities installed in HIPF were distinctively practical for manufacturing plastic products, and the training curriculum in the second year was designed for operation and maintenance technicians in plastic-related industries.

³⁹¹ The establishment of Japanese language course is under procedure at Princess Nourah bint Abdulrahman University in Riyadh and other female universities in the kingdom. See Embassy of Japan in Saudi Arabia, ‘Japanese language learning support’ (in Japanese) (2014). Available at: <https://www.ksa.emb-japan.go.jp/j/culture/japanese.htm> (accessed on January 25, 2019).

³⁹² ‘Transitional era of Saudi – Japanese cooperation for development’, *JICA Newsletter* (November 1, 2009). Available at: http://www.jica.go.jp/egypt/english/office/saudi/pdf/newsletter_en_13.pdf (accessed on February 9, 2016).

The third institute, the Saudi Electronics and Home Appliances Institute (SEHAI), was established in Riyadh in 2009 to train Saudi youths as technicians in electronics and home appliance industries. Unlike the previous institutes, SEHAI's management was led by an executive committee comprising Saudi distributing agent companies of Japanese electronics and home appliances products, such as Sony, Toshiba, Hitachi and Daikin.

In this management scheme, the Japanese government provided SEHAI with the training curriculum, technical advisors for instructing technical course management, and training program for SEHAI instructors, encouraging SEHAI's smooth transition to becoming an independent institute. All three institutes' establishment was based on authorization from the Saudi government (represented by TVTC) with a common mission to train Saudi technicians. SEHAI's detailed approach to Saudization, as an example of Japan's commitment to the governmental agreement on human resource development, will be examined following a description of the other two institutes.

The vocational and training programme for Saudi youths was indispensable in contracting a large-scale infrastructure business, particularly in the defence and security industry, represented by the offset programme of the British al-Yamama arms deal project since 1970s.³⁹³ On the other hand, the three Japanese institutes were not business-adjunct offset programmes, but designed to provide Saudi youths with practical training at a technician level (not an engineer level), with work ethics, English communication skills and various technical experiences

³⁹³ Cordesman, Anthony H., and Nawaf Obaid, 'The Saudi security apparatus: Military and security services – challenges and developments', in *Geneva Centre for Democratic Control of Armed Forces, Working Paper 147* (2004), pp.18-19.

necessary for Saudi youths' training. The two-year curriculum in the three institutions, complying with Saudi National Occupational Skills Standard (NOSS) guidelines, were programmed for training ordinary Saudi high school graduates, assumed to have limited English skills and limited knowledge of mathematics and physics, and also included on-the-job training for all students in the second year. As of June 2017, the total number of graduates was respectively 2,831 for SJAHI, 1,375 for HIPF and 576 for SEHAI.

3.2.2(1) Saudi – Japan Automobile High Institute (SJAHI)

SJAHI was officially established in the suburb of Jeddah on September 1, 2002.³⁹⁴ The idea of establishing a repair and maintenance institute was introduced following the signing of the Japan-Saudi Arabia Cooperation Agenda when Crown Prince 'Abd Allah visited Japan in October 1998, for the purpose of expansion of Saudi youths' employment in the automobile industry.³⁹⁵ The automobile sector in the kingdom was rapidly growing and required continuous updates of automobile technology and skills with technical and practical competency. Despite the growing number of Saudi graduates, the automobile industry had a shortage of Saudi technicians who possessed international standard skills and expertise.³⁹⁶

In a meeting of the Japan-Saudi Arabia Joint Committee in May 2000, some

³⁹⁴ The SJAHI website is: <http://www.sjahi.org/About-Us/SJAHI-Profile>.

³⁹⁵ Hatanaka, Yoshiki, 'Jidosha boom no Saudi Arabia de share sanwari wo nigiru Toyota (Toyota holds 30 % car sales share in Saudi Arabia)', *Nikkei Business Online* (in Japanese) (September 27, 2012). Available at: <http://business.nikkeibp.co.jp/article/report/20120924/237197/?rt= nocnt> (accessed on March 14, 2016).

³⁹⁶ *ibid.*

conditions on establishing the institute were agreed by both governments. They agreed that the institute would adopt a two-year technical college system and prepare for the opening in September 2002. In addition, they agreed that the Japan Automobile Manufacturers Association (JAMA) and the Japanese Automobile Dealers in the Kingdom (JADIK) would cooperate with selecting and installing the necessary machinery and equipment for the training. Upon signing this agreement, an official request for project-scheme technical cooperation was issued by GOTEVOT to the Japanese government in July 2000. The scope of works of both governments were as follows:

* Japan was tasked with dispatching long-term Japanese experts (chief advisor, coordinator, expert on curriculum management and experts on engines, chassis, and electric systems), short-term experts (instructor in installation of machines and facilities, expert on safety, expert on Japanese automobile institute administration, expert on technical evaluation and examination), providing training programmes in Japan (institute management and administration, car maintenance technology), and the instalment of machines and facilities for training (vehicles, engines, simulators, lifts, various tools etc.).

* Saudi Arabia's responsibility was to provide the staff in charge (Administration: 17; Student affairs: 5; Technical subject instructors: 24; General subject instructors: 5), the facilities, the endowment of the land (70,000m²),³⁹⁷ and to construct the institute's buildings.

SJAHl students have been offered labour contracts with Japanese car-dealer companies which employ the students at the institute admission and, as a

³⁹⁷ The institute land was granted by the Saudi government, assigning the legal property to the Saudi Arabian National Guard.

regulation with penalty clauses, have to work at the company for at least three years after graduation. In case the graduates leave the company within the compulsory working period of three years, they must reimburse the scholarship fee (1500 Saudi riyals per month [400 US dollars]) to the institute. In addition, SJAHI has a six-month monitoring system after graduation, termed Joint Coaching Programme (JCP) which enables it to monitor the graduates' working situation as a basis for improving the existing curriculum at the institute. In a survey conducted in 2010, it turned out that most of SJAHI graduates were changing jobs to governmental work after three years. This reflected the national situation where many youths favoured governmental jobs in terms of salary and working conditions. Considering this reality, SJAHI and the Japanese government concluded that 'SJAHI produced many skilful workers who speak English and have work ethics in line with the Saudi government and indirectly and elaborately contributed to the Saudization campaign'.³⁹⁸

Between 2012 and 2015, Japanese experts at SJAHI visited Dammam, Riyadh, Jeddah, Macca, Abha, and Tabuk to monitor the after-the-three-year graduates' working situation and to conduct the JCP. As a result, it was confirmed that most of the graduates in the eastern, northern, and southern regions were continuously working in the same Japanese car-dealer companies. Furthermore, one of the second-batch graduates (graduated in 2005) was promoted to a higher position of service management in Honda (Dammam). It was more common for the graduates in regional offices to work longer and more sustainably (even receiving

³⁹⁸ Diplomatic cables from Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs, Japan (classified). The author participated in the organization of this survey with a SJAHI expert and a Japanese embassy staff.

promotions) than in big cities – because of the positive benefit of being closer to their hometown.³⁹⁹ On the other hand, many graduates who had been working for three years in Riyadh and Jeddah had taken governmental occupations or other jobs at American, European and Korean car dealers to get better conditions. Car dealers in both cities were preparing to employ more SJAHI graduates, predicting possible job-hopping after three years' occupation.⁴⁰⁰ This fact showed that there were different working incentives between Saudi youths depending on whether they were native from urban or rural cities. It is understandable that Saudi youths prioritized family issues (i.e. closeness to their family members) over working conditions when anticipating their life plan.

As stated above, SJAHI established a graduates' monitoring system of administration and utilized the information to organize the SJAHI alumni association. Based on the data for 2015, the membership of the alumni association boasted 1,706 graduates, making up approximately 70% of the total of 2,446 graduates.⁴⁰¹ Using this information, SJAHI could identify the graduates' working situation including job-hoppers. In addition, some graduates were hired by SJAHI as technical instructors after the three-year working experience at the car dealers. As of 2015, SJAHI had welcomed 12 instructors who gradually advanced to management level as they had experienced training in Japan.⁴⁰² In addition to it, a SJAHI graduate was assigned as a training manager at the new

³⁹⁹ Personal interview with a Japanese expert at SJAHI on March 3, 2016.

⁴⁰⁰ *Ibid.*

⁴⁰¹ *Ibid.*

⁴⁰² Ministry of Foreign Affairs of Japan, 'Japan's support to the Middle East' (March 8, 2016). Available at: <https://www.youtube.com/watch?v=avZmLopezZc> (accessed on March 13, 2016) and Toyota, 'SJAHI, Cooperation for technical assistance' (in Japanese) (2015). Available at: http://www.toyota.co.jp/jpn/sustainability/social_contribution/education/overseas/saudiarabia.html (accessed on March 3, 2016).

office of Nissan Saudi Arabia. SJAHI created a sense of belonging to Japanese brands among the graduates by establishing the alumni association, while supporting the whole automobile industry in Saudi Arabia and expanding the market share of Japanese vehicles by contributing to human resource development.



SJAHI's workshop and 'Japanese style' daily morning gathering
Source: JCCME Archive

3.2.2(2) High Institute for Plastic Fabrication (HIPF)

The establishment of HIPF,⁴⁰³ as a non-profit institute, was based on an agreement in a meeting held on September 18, 2004 between GOTEVOT and SHARQ. The HIPF was set up to practice vocational training in the field of plastics fabrication technology with the mission to 'develop and provide high quality technical training and technology services in order to meet the needs of the plastics industry'.⁴⁰⁴ In order to sustain the collaboration between GOTEVOT and

⁴⁰³ The website of HIPF is: <http://hipf.edu.sa/en/>.

⁴⁰⁴ 'HIPF Catalog', *High Institute Plastic Fabrication*, Issue No.05 Rev. No.6 (July 2017): p.9.

SHARQ, the HIPF appointed a GOTEVOT senior official as head of the board of directors.

Various facilities and resources were provided by Japan in the set-up of HIPF. While the construction costs (approximately 10 billion Japanese Yen [92.88 million US dollar]) were covered by the Saudi Petrochemicals Development Company, 46 South-East Asian instructors on the English subject, and nine Japanese technical advisors, were provided by the Japanese partner. The scope of work of the organizations concerned were as follows:

- Saudi private companies in the plastic industry were required to employ Saudi youths through labour contracts, including the payment of 25 % of the training cost and 33% of the scholarship;
- The Saudi Human Resources Development Fund (HRDF) covered the training cost (which equals to subsidies to private companies employing Saudi youths);
- Mitsubishi Corporation provided the curriculum and covered the cost of dispatching Japanese experts and of foreign instructors;
- SHARQ covered the cost of construction of buildings, facilities and the Institute's administration;
- Finally, the Japanese government, represented by the Japan International Cooperation Agency, provided advice.



HIPF's plastic fabrication machine for training

Source: JCCME Archive

Only Saudi nationals who had graduated from high schools were eligible for admission. HIPF accepted between 250 and 300 students per semester. The academic expenses (SR42000 per year for an annual scholarship and SR18000 for the salary) were covered by private companies and HRDF. The companies were able to count the Saudi students at the institute as Saudi national employees, according to the rules of the Saudization campaign. Graduates were given a diploma qualification and had an obligation to work at the contracted company for at least two years after graduation.

In HIPF, like in SJAHI, the basic curriculum and qualification complied with the requirements of the Saudi National Occupational Skills Standards (NOSS), which stipulated qualification standards of technicians, minimum levels of technique and knowledge in the various fields of industry.⁴⁰⁵ While the NOSS categorizes five

⁴⁰⁵ Some rules of the Saudi NOSS were revised by the Scottish Qualification Authority (SQA) in 2014. See SQA, 'Project description' (2014). Available at: <http://www.sqa.org.uk/sqa/70486.html> (accessed on February 10, 2016).

groups of technicians and engineers in the petrochemical industry,⁴⁰⁶ HIPF graduates were granted a diploma of plastic machinery engineer.

In the first years following the establishment of the institute, the striking problems faced were the students' high failure rate of basic studies in the first year (English and basic subjects including mathematics) and of class attendance, and the students' high rate of changing or quitting job after graduation. Particularly, as HIPF strictly applied an attendance rate in the unit acquisition, many students failed to be qualified to take examinations for the next grade, while there were no remedial measures such as supplementary lessons or submission of the report. The institute had a two-term system and thus raised the number of enrollees to supplement for the high failure rate. In addition, HIPF did not adopt the admission-employment system (in which students are employed by Saudi companies at the time of admission) which other institutes introduced. According to Japanese experts in HIPF, it was likely that the unskilled and unexperienced graduates felt stress and anxiety in the gap between the institute and the work place, and in building new relationships with English-speaking foreign workers.⁴⁰⁷

3.2.2(3) Saudi Electronics and Home Appliances Institute (SEHAI)

Following the examples of SJAHI and HIPF, it was decided that Japanese support in vocational training programme for the Saudi Electronics and Home Appliances

⁴⁰⁶ Respectively, representative supervisor; production engineer; shifting supervisor; plastic machinery engineer, and assistant engineer.

⁴⁰⁷ Author's meetings with HIPF Japanese experts in 2011-2012, discussing how to improve the students' attitude to learn.

Institute (SEHAI)⁴⁰⁸ would be considered. The initial idea for the establishment of this training institute, known initially as the Saudi-Japan Electronics High Institute (SJEHI), was suggested at the ninth Japan-Saudi Arabia Business Council joint committee meeting in Riyadh in January 2008 by the Saudi business group who asked the Japanese government to be involved in the institute. The governmental non-profit organization Japan Cooperation Centre for the Middle East (JCCME) was assigned as leading organization in charge of conducting the feasibility study.

As shown in section 3.1.1 (3), it was in 1994 that the Saudi government, as part of the Saudization campaign, set a 5% quota for Saudi nationals (raised to 30% in 2004) in companies with more than 20 employees – with limited success. Most of the companies continued to employ foreign workers due to the difference of salaries and the less protective labour regulations for non-nationals.⁴⁰⁹ Some years after the Saudization campaign began, many electronics and home appliance companies recognized the benefits of employing trained Saudi technicians or customer service staff. Additionally, according to the feasibility studies conducted by JCCME in 2008 and 2009, it turned out that the major Saudi distribution agent companies (of Japanese electronics and home appliances products)⁴¹⁰ indicated a positive attitude to employing Saudi youths if they had an experience of technical vocational training which covered work ethics. As a result, many companies were searching for a solution to comply with the

⁴⁰⁸ SEHAI's website is: <http://www.sehai.org/Content/Home.aspx>.

⁴⁰⁹ Al-Asfour, Ahmed, and Sami A. Khan, 'Workforce localization in the Kingdom of Saudi Arabia: Issues and challenges', in *Human Resource Development International* 17.2 (2014), pp.243-253.

⁴¹⁰ Saudi companies included: Modern Electronics (Sony), Olayan Group (Toshiba), Al-Essa (Hitachi), Abdul Latif Jameel (Toshiba and Sharp), Abbar and Zainy (Daikin), Zagzoog (General) Ahmed Abdulwahid (Nikon) and others.

government's requirement.⁴¹¹

The employers' decisions to favour the employment of Saudi technicians were based on the consideration of potential Saudi human resource benefits in the long run, but also of a substantial and long-term reduction in total personnel costs, as well as of governmental commitment to the Saudization campaign. Therefore, after calculating the extra costs associated with employing foreign workers, including periodical renewal of visas, annual renewal of residence permits, annual leave tickets, social insurance, among others, and increasingly tighter labour regulations⁴¹² and complex procedures, many companies began to consider employing English-speaking Saudi youths as an attractive option. In particular, Saudi customer service staff or residence-visiting repair / maintenance technicians were much appreciated by Saudi customers. Furthermore, it was advantageous for Saudi employers doing business in the cities of Macca and Medina to employ Saudi employees.

In addition, the agent business scheme was also under transformation in the 2000s. Saudi companies in the electronics and home appliance industry exclusively developed a product distribution agent business, represented by Abdul Latif Jameel Co. in Jeddah, distributing Toyota vehicles since 1955, as well as carrying out repair and maintenance works. However, the business trend was shifting to manufacture, sale, and maintenance of their own brand products in the market, pursuing more profit and business incentives.⁴¹³

⁴¹¹ Comments by Saudi distribution agent companies in JCCME's feasibility survey mission in 2008 and 2009 (The author was a mission member of the survey).

⁴¹² The cost of issuing residence permit (*iqama*) was 2,000 Saudi riyals per head in 2015. Moreover, in March 2016, the Saudi Ministry of Interior announced a penalty of 15,000 Saudi riyals against each sponsor and visitor who overstays in the kingdom.

⁴¹³ Actually, Al-Essa Co., a distributing agent of Hitachi home appliances products, started the manufacturing of their own air-conditioners (HAAS) since 1988.

In the electronics and home appliance industry in the 2000s, it was expected that employment opportunities would be increasing in Saudi Arabia. However, the employment of Saudi youths without a certain level of technical knowledge and skills remained problematic.⁴¹⁴ There were no specific measures to address this vicious circle, except to gradually train Saudi youths. It was generally recognized by employers that training Saudi students was not an easy task, requiring well-prepared practical pedagogical skills and techniques, as well as a long-term vision. However, it is clear that the decades-long Saudization campaign would need to be advanced in accordance with the changing features of the Saudi labour market.⁴¹⁵ Contextually, Saudi senior officials predicted that Japan's vocational training cooperation could meet a continuous demand in the Saudi labour market.

Japanese cooperation with SEHAI could accelerate the flow of Saudization, promoting more job opportunities in the expanding market of electronics and home appliances. SEHAI students would have an opportunity to learn the principles of technology of electronics and home appliances which also applied to more advanced techniques through the Japanese programme of technology transfer and development. As already noticed above, when discussing the profile of the SJAHI students, SEHAI instructors confirmed that Saudi youths from rural areas such as Jazan, Najran, and Qatif were diligent in working in a small- or medium- sized manufacturing sector, while Riyadh citizens preferred to be working in white-collar, governmental occupations.

⁴¹⁴ Author's meetings with Saudi distribution agent companies of Japanese electronics and home appliances products (2010 and 2011).

⁴¹⁵ Hertog, Steffen, *Princes, brokers, and bureaucrats: oil and the state in Saudi Arabia*. (New York: Cornell University Press, 2011): pp.191-194.

The cooperation with SEHAI was the third effective technology transfer program in a transitional period of Saudi industrial restructuring away from the oil-dependent economic situation. However, one of the major differences from the existing institutes was the involvement of the Japanese technical college which enabled SEHAI to provide students with not only conventional technical knowledge and skills as an electronics and home appliance technician, but also inquisitiveness toward scientific technology.⁴¹⁶ That unique know-how improved the Saudi vocational training and human resource development scheme.



⁴¹⁶ The author had a job assignment as a senior coordinator at SEHAI, Riyadh (2009-2012), together with other two Japanese technical experts and had regular meetings with them, discussing how to make Saudi students interested in science and technology. One of the experts from Nippon Engineering College, Tokyo elaborately suggested to bring Japanese college know-how in the curriculum to raise fundamental scientific curiosity as well as a reputed Japanese company practices of 5S campaign (5S stands for Seiri (orderliness), Seiton (neatness & tidiness), Seiso (cleaning), Seiketsu (cleanliness), and Shitsuke (good manner)) in every class.



SEHA's 'monozukuri (manufacturing)' workshop No.3 and graduation ceremony in 2017 with an attendance of the governor of Diraiya.

Source: JCCME Archive

3.2.2 (4) Creation of a Saudi business model? A new business model of diversifying the industrial structure in the Gulf

From a Saudi viewpoint, what were the benefits to Saudi industry of having technical cooperation in vocational training from Japan? The key target of the Saudi government's strategy of economic diversification was to achieve economic independence from the petrochemical-dependant industrial structure, encouraging manufacturing in the private sectors to become more competitive in the international market as well as training Saudi youths.⁴¹⁷ The breakdown of industrial sectors in GDP (nominal value) in 2011, as shown in Figure 4, clearly indicated the dependence on oil and petrochemical industries, while the machinery industry sector, a core activity of manufacturing, recorded just 6% which proved a relatively low level compared to the figure of Egypt (16.6% in

⁴¹⁷ Cordesman, Anthony H., 'Saudi stability in a time of change,' Centre for Strategic and International Studies, (April 2011), pp.8-15.

2009).⁴¹⁸

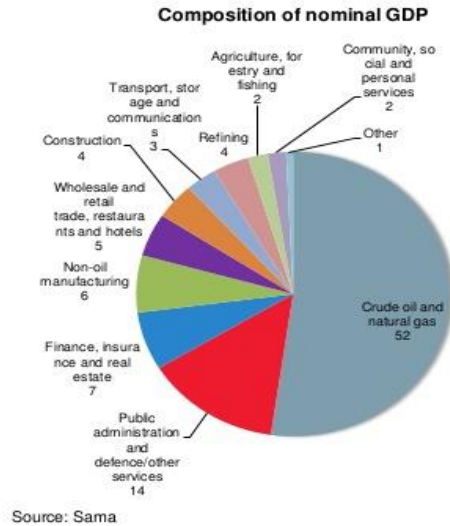
Figure 4. Composition of nominal GDP in Saudi Arabia

Economy still dominated by oil



Saudi Arabia has the largest economy in the Middle East, accounting for about half of the combined gross domestic product (GDP) of the GCC.

The energy sector dominates the local economy: in 2011, oil and gas accounted for 52 per cent of nominal GDP, followed by public administration and defence at 14 per cent. The largest non-government contributions to GDP came from the finance, insurance, real estate and non-oil manufacturing sectors.



Source: 'The Business environment of Saudi Arabia and cultural aspects of doing business in the kingdom', *MEED Insight* (March 26, 2013).

To summarize, Saudi Arabia's long-term strategy was to establish its position as the first Gulf state to overcome the plight of an oil-dependent economy, by successfully diversifying the industrial structure to a technology transfer-shaped manufacturing state, and to achieve the new Saudi business model of diversified industrialization strategy for the purpose of realizing substantial economic independence by promoting technology transfer and stimulating existing Saudi basic industrial technology as well as human resource development.⁴¹⁹

⁴¹⁸ The Egyptian Economy and Business Environment, *Embassy of Egypt in Belgium* website (December 20, 2010) (accessed on February 10, 2016) available at <http://www.egytrade.be/259>

⁴¹⁹ Cordesman, *Saudi stability in a time of change*, op. cit., pp.2-5.

The Saudi business model was different from the Dubai development process which diversified its industrial structure from basic industries of trading, logistics, services and tourism to value-added industries (finance, media and medical etc.),⁴²⁰ or the Southeast Asian export-oriented industrialization, which has been based on the promotion of capital-incentive industrialization in heavy industries, such as steel, car manufacturing, and electric equipment manufacturing; on commodities' import substitutional industrialization with a large-scale domestic market; and the promotion of labour-intensive industries for an export-oriented economic scheme in light industries, such as textile and electronic parts assembly in a specialized tax-free economic zone.⁴²¹ On the contrary, the rentier-characterized industrialization process in Saudi Arabia was irregular compared with the industrialization process described above, given the unpredictability of oil revenues (a phenomenon sometimes termed as 'resource curse').⁴²² Given its economic structure, Saudi Arabia was in need to transform the economy through its own national development plan, while shortening the period of the industrialization phasing process which most of the developed countries experienced. Pursuing national interests, the Saudi government also tried to establish regional influence of political economy through a diplomatic approach which could be extensively asserting Saudi initiatives in the region, as well as for

⁴²⁰ Hvidt, Martin, 'The Dubai Model: An outline of key development-process elements in Dubai', in *International Journal of Middle East Studies* 41.3 (2009), pp.397–418.

⁴²¹ A good example of capital-incentive and export-oriented industrialization processes was seen in Malaysia which experienced industrialization steps in 1960s and 1970s. See: Alavi, Rokiah, *Industrialization in Malaysia: import substitution and infant industry performance*. (London: Routledge, 2006): pp.28-57; and for industrialization of the Philippines, see Amsden, Alice H., 'Diffusion of development: The late-industrializing model and greater East Asia', in *The American Economic Review* 81.2 (1991), pp.282-286.

⁴²² Ross, Michael L., 'The political economy of the resource curse', in *World Politics* 51.02 (1999), pp.297-322.

the OIC member countries.⁴²³ However, the gap between the Saudi aspirations and the reality was substantial, due to the lack of a basic technical scientific infrastructure, but also insufficiently-skilled human resources, and a less-diversified industrial structure since the late 1970s.⁴²⁴

A Saudi embassy cultural staff member in Tokyo, Essam Bukhari referred in 2007 to Japan's cooperation on Saudi human resource development in vocational institutes as practical and successful examples of technical assistance, and advocated for a new Japan-Saudi Arabia partnership to promote technical assistance cooperation and develop a substantial business development plan.⁴²⁵ He also underlined the importance of sustainable economic development in Middle East countries through technical cooperation, particularly, establishing bilateral technical collaboration schemes between official Islamic institutes and the JICA as a joint international promoter for industrialization. In practical terms, Saudi Arabia is the largest stockholder of the Islamic Development Bank Group (IDBG). In particular, the Islamic Corporation for the Development of the Private Sector (ICD), a member of IDBG, and JICA signed a Memorandum of Understanding for setting out a framework for collaboration on Islamic finance business development for reciprocal interests.⁴²⁶

⁴²³ Gause, III, F. Gregory, 'Saudi Arabia's regional security strategy' in Mehran Kamrava (ed.), *International politics of the Persian Gulf* (New York: Syracuse University Press, 2011): pp.175-183.

⁴²⁴ Szyliowicz, Joseph S., 'The prospects for scientific and technological development in Saudi Arabia', in *International Journal of Middle East Studies* 10.3 (1979), pp.355-372.

⁴²⁵ Bukhari, Essam, *Saudi – Japanese technological cooperation: Strategic Visions*. (PhD dissertation: Waseda University, 2007): pp.39-84.

⁴²⁶ Japan International Cooperation Agency, 'Press release. ICD and JICA Sign Memorandum of Understanding on Islamic Finance' (October 11, 2014). Available at: http://www.jica.go.jp/english/news/press/2014/141011_01.html (accessed on March 6, 2016).

3.2.2. (5) *Promoter of investment and joint venture business in Saudi Arabia: Japan – Saudi Arabia Industrial Cooperation Task Force (JTF)*

On the occasion of the official visit by Japanese Prime Minister Abe to Saudi Arabia in April 2007, the two countries issued a joint statement regarding the formation of the Saudi-Japan Industrial Cooperation Joint Task Force (JTF). An extract from the statement reads as follows:

*Both sides affirmed that utmost efforts should be made by both government and private sectors for the sake of comprehensive development of their economic relations. For that purpose, the leaders of both countries, in collaboration with the private sector, decided to start an active initiative to establish a pertinent and specialized joint Task Force with the objectives of facilitating industrial investment opportunities in both countries, making the best use of resources available in both countries including financial, institutional resources and technologies.*⁴²⁷

The JTF's objective and mission were to expand Japanese investments in the Saudi industrial sectors, including to enhance innovation capacity, skills and expertise of the Saudi workforce, and to encourage industrial competitiveness. And the JTF mission was also to increase opportunities for industrial investments by Japanese companies. The secretariats were assigned to the governmental

⁴²⁷ Ministry of Foreign Affairs of Japan, 'Joint Statement between the Kingdom of Saudi Arabia and Japan' (April, 2007). Available at: http://www.mofa.go.jp/region/middle_e/pm0704/joint_saudi.html (accessed on January 7, 2016).

organizations of the National Industrial Cluster of Development Program (NICDP) and the JCCME. In 2012, the NICDP clusters were: automotive; minerals and metal processing; pharma and biotech; plastics and packaging; industrial enabling; business analysis and project evaluation; and support services.⁴²⁸

In Japan, the JCCME established a task force team of the JTF in 2007. It contacted approximately 5,000 Japanese companies, mainly manufacturers, directly interviewed 700 promising companies, and offered both financial support (market research cost subsidies) and information support (using its Saudi Arabian network) to a total of around 70 companies looking to do business in Saudi Arabia. In February 2012, the JCCME organized a forum in Tokyo to promote industrial cooperation between Japan and Saudi Arabia and conducted sessions focused on future energy, water business, small and medium-sized enterprises and entrepreneurship, training and HRD, investment climate, downstream industries, healthcare, urban development, and IT & smart cities. It gathered more than 800 participants from industry, government, and academia. Moreover, the JCCME has aimed at providing policy-building support and human resource development support to small and medium-sized companies. The activities of JTF were regarded as the Saudi-Japan Vision 2030 projects and were taken over to JCCME headquarter office in April 2018.

⁴²⁸ NICDP, 'Industrial Clusters Team' (2012). Available at: http://www.ic.gov.sa/index.php?option=com_content&view=article&id=9&Itemid=109 (accessed on January 7, 2016).

3.3 Administration change and earthquake in Japan (2009-13)

The period 2009-13 was marked by significant changes in Japan's internal politics and society. The Democratic Party of Japan (DPJ), created in 1998, achieved an electoral landslide victory in the 45th Lower House general election in 2009, defeating the Liberal Democratic Party (LDP) which had been in power almost continuously since 1955 (except between 1993-4).⁴²⁹ This drastic change in Japanese politics led to a re-direction of foreign policy. In March 2011, as a result of the earthquake, the DPJ government was also forced to review its energy policy, reducing drastically the share of nuclear power.⁴³⁰ The relationship with the oil-rich countries in the Gulf was also re-evaluated.

The DPJ administrations under Prime Ministers Hatoyama (September 2009-June 2010), Kan (June 2010-September 2011), and Noda (September 2011-December 2012) tried to pursue reforms of domestic as well as diplomatic issues.⁴³¹ In particular, the ambition was to shift from a conventional bureaucracy-led governance in terms of drafting government policies and bills to a more politically-led one, under the strong initiative of the Prime Minister's Office. The Hatoyama administration's foreign policy between September 2009 and June 2010 focussed on the East Asian Community Initiative and the strengthening of Japan-China relations as well as the preservation of the

⁴²⁹ Kyodo News, Staff report, 'In landslide, DPJ wins over 300 seats - LDP crushed; Hatoyama set to take power,' *The Japan Times*, August 31, 2009.

⁴³⁰ Nakano, Jane and David Pumphrey, 'Japanese Energy Policy One Year Later,' *Centre for Strategic and International Studies* (2012). Available at: <https://www.csis.org/analysis/japanese-energy-policy-one-year-later> (accessed on January 28, 2020).

⁴³¹ Sneider, Daniel, 'The new Asianism: Japanese foreign policy under the Democratic Party of Japan', in *Asia Policy* 12.1 (2011), pp.99-129.

established Japan-US alliance,⁴³² but did not show strong interests in the Middle East. Its main diplomatic initiatives were as follows:

- (1) Maintaining and deepening Japan-US relations: Advocacy for close and equal Japan-US alliances, discussions to deepen Japan-US alliances, relocation of the US Marine Corps Air Station Futenma in Okinawa;
- (2) Advocating for the East Asian Community Initiative and strengthening Japan-China relations with of the aim of enhancing strategic reciprocity between Japan and China;
- (3) Advocating for a more flexible policy toward North Korea;
- (4) Terminating support activities by the Japanese Self-Defence Force (SDF) in the Indian Ocean;
- (5) Promoting a global move towards nuclear disarmament and non-proliferation and aligning with the US President Barack Obama's 'the world without nuclear weapons' policy.⁴³³

The successive Kan and Noda administrations also focused on strengthening relations with neighbouring countries, the Japan-US alliance remaining the cornerstone of the country's foreign policy. However, there were few tangible diplomatic achievements during the three short-term DPJ administrations.⁴³⁴ As a result of the latter's endeavour to follow a foreign policy clearly different than

⁴³² Zakowski, Karol, Beata Bochorodycz, and Marcin Socha, '9 Hatoyama Administration's East Asian Community Initiative', in Zakowski, Karol, Beata Bochorodycz, and Marcin Socha (eds), *Japan's Foreign Policy Making - Central Government Reforms, Decision-Making Processes, and Diplomacy* (Cham: Springer International, 2017), pp.157-179.

⁴³³ Jimbo, Ken, 'Japanese Foreign Policy: 2006-2013, Responding to the Rise of China', *CID OB International Yearbook 2013* (2013), pp.1-6.

⁴³⁴ Hughes, Christopher W., 'The Democratic Party of Japan's New (but Failing) Grand Security Strategy: From "Reluctant Realism" to "Resentful Realism"?', *The Journal of Japanese Studies* (2012), pp.109-140.

the LDP administrations and to increase the political influence on the 'deep state' aligned with previous administrations, frictions between the government and the bureaucracy and experts on security issues increased and prevented from conducting an effective foreign policy.⁴³⁵ It must be noted, though, that efforts to conclude the Trans-Pacific Partnership Agreement (TPP) showed substantial progress under the Kan administration.

The Great East Japan Earthquake and Fukushima Dai-ichi (the 1st) nuclear power station disaster in March 2011 had a considerable impact on Japan's energy balance policy. The nuclear power station disaster led to a significant reduction of the ratio of nuclear power in Japan's energy balance and resulted in increasing the dependence on fossil fuels from the Middle East. Following the disaster in March 2011 and the subsequent shutdown of nuclear power plants, the ratio of fossil fuels reached about 90% of Japan's power generation in 2012 compared to 65% before the earthquake, while the ratio of LNG increased in parallel – with nearly 90% of Japan's crude oil imports and 20% of natural gas coming from the Middle East.

Under the DPJ's administrations, Japan's diplomatic policy and economic activities towards the Middle East and North Africa were conducted on a daily basis by governmental organizations (JICA, JETRO, JBIC, NEDO, Japan Foundation, and JCCME). and private companies. In particular, the main cooperation issues towards the Middle East included: (1) Cooperation to ensure the realization of fair political and administrative management (including the dispatch of election observers to Egypt and Tunisia and governance support

⁴³⁵ Shinoda, Tomohito, 'Japan's Failed Experiment: The DPJ and Institutional Change for Political Leadership', *Asian Survey* 52.5 (2012), pp.799-821.

provided through training in Japan for administrative officials); (2) Human resource development (support for vocational training and educational facilities, and encouragement of higher education and technical science education); (3) Promotion of employment and industrial development (infrastructure development, industrial diversification, support for setting up economic environment for foreign investment etc.); (4) Economic Diplomacy (support for private economic exchanges, promotion of human resource exchanges and cultural dialogue, etc.).⁴³⁶

As for the political, economic and cultural exchanges with Saudi Arabia during this period, projects which had been initiated before 2009 were simply maintained and pursued, but no new particular development of the relationship can be observed. Between 2010 and 2012, nine Saudi Ministers (including Ministers of Economy and Planning, Higher Education, Water and Electricity, Finance, State for Foreign Affairs and Commerce, Petroleum and Mineral Resources) and four Japanese Ministers (including Ministers of Economy, Trade and Industry, and Foreign Affairs, as well as the Crown Prince, for the funeral ceremonies of two Saudi Crown Princes, Naif [2011] and Sultan [2012]) visited their counterparts, as described in more details in Appendix 2 (List of officials' exchanges between Japan and Saudi Arabia).⁴³⁷

⁴³⁶ Ministry of Foreign Affairs, Japan, 'Dispatch of an Observer Mission from Japan for the National Constituent Assembly's election in the Republic of Tunisia', (October 2011), available at: https://www.mofa.go.jp/announce/announce/2011/10/1021_01.html (accessed on January 29, 2020).

⁴³⁷ Ministry of Foreign Affairs, Japan, 'Visit of His Imperial Highness Crown Prince and Former Prime Minister Yukio Hatoyama to Saudi Arabia to offer condolences on the demise of His Royal Highness Crown Prince Sultan bin 'Abd al-'Aziz Al Sa'ud of the Kingdom of Saudi Arabia', (October 2011), available at: https://www.mofa.go.jp/announce/announce/2011/10/1025_02.html (accessed on January 29, 2020).

Regarding economic exchanges more specifically, the Japan-Saudi Arabia Joint Committee took place in 2010 and 2012, while a tax treaty was signed in 2010, and a Liaison Support Council related to the al-Janadriya festival was established in 2010. No matter which administrations (DPJ or LDP) were involved, these economic communications contributed to consistent bilateral partnership.

During the 26th National Festival for Heritage and Culture hosted by the National Guard in al-Janadriya the following year, the Japanese government participated as a guest country despite the Earthquake disaster. The number of visitors to the Japan Pavilion reached more than 300,000 people, providing an indication of Saudis' interest in Japanese culture and products.⁴³⁸

3.4 Chapter conclusion

This chapter has examined how Saudi-Japan relations both strengthened and deepened between 1990 and 2010 – at a time when the Saudi government was launching a comprehensive economic reform process, including the establishment of governmental organizations dedicated to the promotion of foreign investment, the privatization of state-owned companies, the effort at industrial diversification towards the development of non-oil sectors, and the development of human resources (the Saudization initiative). These economic reforms hardly proceeded smoothly, though, as evidenced by the malaise of the Gas Initiative in 2001.

The third phase of the Saudi-Japanese relations was characterized by an

⁴³⁸ 'Displaying the sumo, kimono and kendo, the land of bright sun shines from Janadriyah', *Saudi Press Agency* (April 20, 2011).

enhancement of multi-layered relations and by the deepening of economic relations, as well as by an intensification of officials' and royals' visits. This can be explained by a number of factors, in particular King 'Abd Allah's 'Look East Policy' and his energetic visits to Asia. Saudi-Japanese official visits were critical for the consolidation of bilateral business relations. In other words, it was a typical business scheme of reciprocal relations for both the Saudi and Japanese governments which led private companies to get involved. The high-ranked officials' regular meetings were also significant in terms of monitoring the progress of previous meetings' commitments.⁴³⁹ Both countries' decision-making systems on national priorities were rather similar to each other. This explains why the pace at which joint ventures were established recorded a peak level in the 1990s and 2000s, as illustrated by the large-scale Aramco-Sumitomo Chemical PetroRabigh project in western Saudi Arabia.

Both governments created specialized agencies to support the establishment of joint venture projects. In addition, the Japanese government collaborated on the creation of three vocational training institutes in the fields of automobile, plastics fabrication, and electronics and home appliances in this period. Furthermore, cultural and academic exchanges substantially developed – as illustrated by the cultural events organized in 2005, on the occasion of the celebration of the 50th anniversary of the establishment of diplomatic relations in 2005. The number of Saudi postgraduate students in Japan exceeded 500, while the number of Saudi students who benefited from job opportunities in Japanese

⁴³⁹ In practice, the deadlocked difficulties of procedure in establishing Japan Water Desk in Jeddah and issuing a work permit for a Japanese expert, which was initiated Crown Prince Abdullah and Prime Minister Koizumi in Riyadh in 2005, was suddenly solved after the official meeting between Crown Prince Sultan and Prime Minister Koizumi in Tokyo in 2006.

companies also increased. Through these cultural events, personnel and cultural exchanges encouraged Saudi-Japanese mutual understanding and the perception of Japan was significantly improved among Saudi citizens. Particularly, as a result of human resource development cooperation, Japan firmly established itself as a key actor on the kingdom's vocational training market. The Japanese government and companies managed to establish a 'Japan brand' in Saudi Arabia.

The end of this third phase of relations was marked by the change of political administration (following the accession of the DPJ to power) and the 2011 earthquake that re-shaped Japan's energy policy. However these events did not structurally impact the Saudi-Japanese relations that had consolidated during the previous two decades and maintained by the Japanese resilient bureaucratic system. In fact, this period was the prelude for more comprehensive exchanges to be developed under the second Abe administration, from 2013, in the fields of energy, resources, new technologies, and security.

Chapter 4: Japan's techno-economic diplomacy on energy and security under the second Abe administration: 2013-2018

Chapter 4 examines the fourth period of Saudi – Japanese relations between 2013 and 2018. The beginning of Chapter 4 in 2013 coincides with the change of Cabinet in Japan and the formation of the second Abe administration.

Increasing dissatisfaction of the population towards the DPJ administrations, and in particular their foreign policy and relationship with the bureaucracy, led to a political alternation and the establishment of the second Abe administration, which was marked by a consolidation of the power of the Prime Minister's Office (Kantei).⁴⁴⁰ In May 2014, the Abe administration established a Cabinet Bureau of Personnel Affairs, as part of the Cabinet Secretariat; this resulted in the drastic expansion of the involvement of the Prime Minister's Office in the management of human resources and personnel affairs of all ministries, and especially in the appointment of senior management.⁴⁴¹

The second Abe administration reviewed Japan's relations with the Middle Eastern countries from the perspective of energy policy after the earthquake,⁴⁴² leading to a strengthening of the relationship between Japan and Saudi Arabia. The already-matured bilateral relations between Japan and Saudi Arabia have continuously consolidated during the 2010s, as evidenced by reciprocal official

⁴⁴⁰ Pugliese, Giulio. 'Kantei diplomacy? Japan's hybrid leadership in foreign and security policy', *The Pacific Review*, 30:2 (2017), pp.152-168.

⁴⁴¹ Yoshida, Reiji, 'Abe moves to boost control of bureaucrats', *The Japan Times*, May 27, 2014

⁴⁴² Koyama, Ken, 'Japan's Energy Policy Challenges for 2013', *Special Bulletin, A Japanese Perspective on the International Energy Landscape (116)*, *The Institute of Energy Economics, Japan (IEEJ)* (January 7, 2013), pp.1-3.

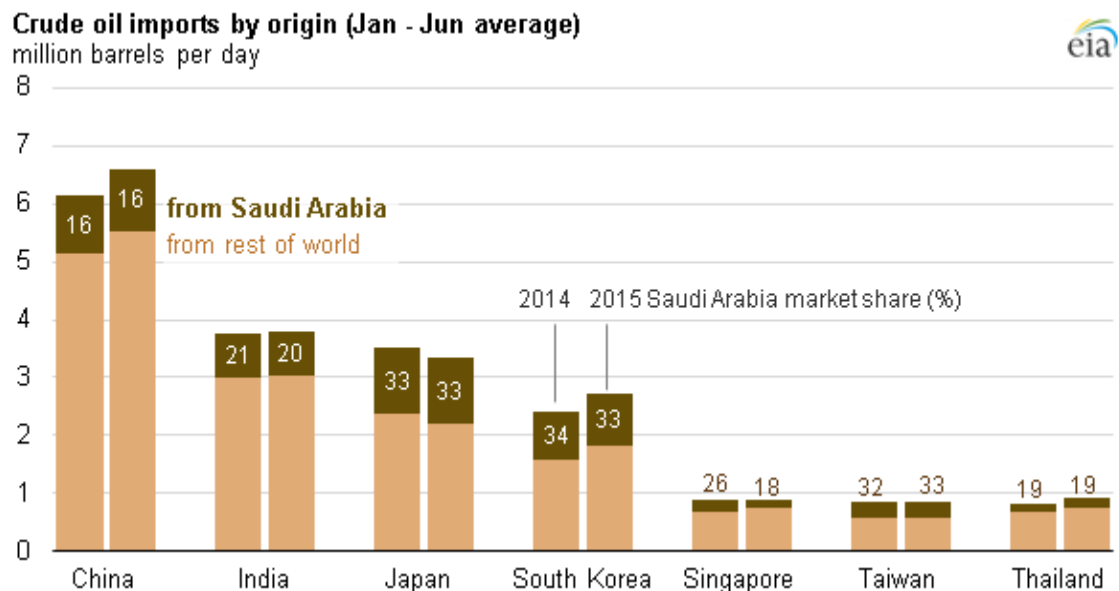
visits, helping to shape new bilateral cooperation, particularly, in the fields of energy-saving technology and defence/security. Substantially, Japanese-Saudi joint venture businesses were established in the sectors of value-added manufacturing industries, especially in terms of engineering work for the maintenance of technical services aimed at life-extension and effective utilisation of existing facilities and multi-industrial insurance services. As of 2015, more than 60 joint venture companies had been established since the 1975 economic cooperation agreement came into force. Japan-Saudi relations have been transformed into mutually beneficial cooperation for economic growth, both in name and reality. The number of joint venture companies, which remains unparalleled by other Asian countries, is a practical example of the successes of these bilateral relations.

Furthermore, cooperation on both energy-saving and security relations advanced in this period. Looking at Japan's successes in developing full-scale energy saving and storage technology, the Saudi government requested Japanese cooperation to help bring those technologies into the Kingdom. On the other hand, the new Japanese military legislation passed in 2015 represents an unprecedented turning point in the defence industry. This enables the Japanese Self-Defence Forces (SDF) to take on an active international role in the Middle East and other regions within this legal framework. In addition, it allows the provision and export of defence equipment to foreign countries by Japanese companies. This does not mean that the Japanese government immediately dispatched SDF in the region. However, it represents a possibility to drastically change political and security relations between Japan and Middle Eastern countries, including Saudi Arabia, in the long run.

4.1 Sustained diplomatic activities between 2013 and 2018

In February-March 2014, then Saudi Crown Prince Salman undertook an official visit to five Asian countries: Pakistan, Japan, Maldives, India and China. The following oil statistics related to Asian crude oil imports (see Figure 5) prove that it was a sensible choice to visit these Asian countries for expanding the Saudi oil export business.

Figure 5. Crude oil imports by origin (2015)



Source: U.S. Energy Information Administration, 'Saudi Arabia maintained crude oil market share in Asia in the first half of 2015' (September 9, 2015). Available at: <http://www.eia.gov/todayinenergy/detail.cfm?id=22852> (accessed on July 13, 2016).

The BP statistics in 2015 showed that approximately 34% of the oil produced

in the world was consumed in the Asia Pacific region (12.4% in China).⁴⁴³ Of the Middle Eastern countries' total oil production in 2014 (978.7 million tonnes), 171.7 million tonnes (m/t) was exported to China, 157 m/t to Japan, 121.1 m/t to India and 237.0 m/t to other Asian regions⁴⁴⁴. Although economic and industrial cooperation between Saudi Arabia and Asia was still significant,⁴⁴⁵ the relations were not straightforward. The target of the Saudi 'Look East Policy' was designed not only to achieve economic success,⁴⁴⁶ but also to develop political relations and trust with individual Asian countries.⁴⁴⁷ On the other way round, the reasons why Japanese companies perceive incentives of doing business with Saudi Arabia is that the Kingdom is not simply an oil-producing country but also 'a potential infrastructure business / investment market'.⁴⁴⁸ Although the oil revenues may fluctuate slightly, the profitability of the business environment from a long-term economic investment viewpoint is likely to attract investors.⁴⁴⁹

Crown Prince Salman and Prime Minister Abe held a meeting in Tokyo on February 19, 2014, discussing bilateral relations, and regional and international issues of mutual interest. They made reference to the successive royal and

⁴⁴³ BP Statistical Review of World Energy June 2015, 'Consumption', 64th Edition (June 2015). Available at: https://www.bp.com/content/dam/bp-country/es_es/spain/documents/downloads/PDF/bp-statistical-review-of-world-energy-2015-full-report.pdf (accessed on April 22, 2019).

⁴⁴⁴ *Ibid.*, "Inter-area movements 2014".

⁴⁴⁵ 'Saudi Arabia's petrochemical producers look East', *Oxford Business Group* (May 26, 2015). Available at: <http://www.oxfordbusinessgroup.com/news/saudi-arabia%E2%80%99s-petrochemical-producers-look-east> (accessed on July 14, 2016).

⁴⁴⁶ Al-Ghamdi, Ibrahim, 'SABIC aims to expand its investment in China, Japan', *Arab News*, November 12, 2012.

⁴⁴⁷ Yamada, Makio, 'Saudi Arabia's look-east diplomacy: Ten years on', in *Middle East Policy Council*, Winter 2015, XXII. 4 (2015).

⁴⁴⁸ Koike, Junji, K. Hayashida, N. Shimokoshi, N. Miwa, 'Chuuto shijo heno shinshutsu senryaku (Special report on the advancing strategy to the Middle Eastern market)', in *Chiteki shisan sozo (Intellectual Property Creation)*, Nomura Research Institute (March, 2014): pp.18-21.

⁴⁴⁹ *Ibid.* pp.15-17.

imperial visits since the mid-1990s – in 1994 (Riyadh), in 1998 (Tokyo), in 2007 (Tokyo) and, in particular, to the visit to Riyadh of Prime Minister Abe in 2013.

This 2013 visit of Prime Minister Abe to Saudi Arabia was particularly significant since several key documents were issued on this occasion. A Memorandum of Understanding was signed by Saudi Arabian General Investment Authority (SAGIA) governor ‘Abd al-Latif al-‘Uthman and Japan Cooperation Centre for the Middle East (JCCME) chairman Hiroshi Okuda regarding cooperation between their two organizations in order to facilitate joint investment. Another agreement was signed to establish the Toray Membrane Middle East Company as a manufacturing joint venture of reverse osmosis membrane in Dammam between Abu-Nayan holding and Toray.⁴⁵⁰ Crown Prince Salman and Prime Minister Abe also issued in April 2013 a joint statement on the strengthening of the Comprehensive Partnership between Japan and Saudi Arabia entitled ‘From Energy to Synergy.’⁴⁵¹

Prime Minister Abe’s visit to Riyadh in February 2014⁴⁵² was the occasion for the two leaders to express their appreciation for the considerable progress made in bilateral political, economic and cultural relations. Crown Prince Salman described Japan as a ‘friend’ of Saudi Arabia.⁴⁵³ More significantly, Crown Prince Salman and Prime Minister Abe expressed their commitment to the

⁴⁵⁰ ‘Toray announces the establishment of joint venture of R/O membrane in Saudi Arabia’, *Nihon Keizai Shimbun*, February 24, 2014.

⁴⁵¹ Ministry of Foreign Affairs, Japan, ‘Joint statement on the strengthening of the Comprehensive Partnership between Japan and Saudi Arabia – From Energy to Synergy’. Available at: <https://www.mofa.go.jp/files/000004093.pdf> (accessed on April 22, 2019).

⁴⁵² Rasooldeen, MD., ‘Riyadh, Tokyo pledge ‘100-year partnership’’, *Arab News*, February 20, 2014.

⁴⁵³ Iqbal, Khalid, ‘Saudi Arabia’s Asia focus. Challenges and prospects’, in *Centre for Pakistan and Gulf Studies* (April 2014): pp.8-9.

Comprehensive Partnership in all fields within the framework of the joint statement issued in April 2013, and to continue discussion and cooperation at different levels. In particular, they outlined four fields of future cooperation: 1. Political and security affairs; 2. Defence; 3. Economic fields, including energy (joint oil storage, renewable energy, and energy efficiency), private sector, industry (investment and technology transfer), infrastructure projects (metro projects and water/wastewater), human resource development and health; and 4. Culture, education, and 'people-to-people exchanges'.⁴⁵⁴

Although a detailed assessment of the defence cooperation could not be agreed during the visit, the description of defence exchanges and cooperation in the official document had considerable implications, given the new Japanese security-related legislation which was to be approved in September 2015.

As a part of the diplomatic protocol, the two governments reiterated the importance of continuing political consultation, enhancing cooperation in industrial investment, technology transfer and infrastructures, as well as cooperation between the private sectors of both countries in industrial and investment fields in Saudi Arabia. They also stated the significance of exchanging expertise and programs of human resource development between the two countries, and intensifying cooperation among universities and research centres, as well as enhancing cooperation in the field of knowledge-based economics. Finally, the two governments reaffirmed their commitment to just, lasting, and comprehensive peace in the Middle East in accordance with the Arab peace

⁴⁵⁴ Ministry of Foreign Affairs of Japan, 'Joint Statement on the occasion of the visit of Royal Highness Prince Salman bin 'Abd al-'Aziz Al Sa'ud Crown Prince and Deputy Premier and Minister of Defence of Kingdom of Saudi Arabia to Japan' (February 25, 2014). Available at: <http://www.mofa.go.jp/files/000028395.pdf> (accessed on July 10, 2016).

initiative and related United Nations resolutions, stressing the need for consolidated international efforts to push the peace process forward towards a two-state solution aimed at establishing a Palestinian state that is sovereign, independent, united and viable.

On the side of the G20 Antalya Summit in Turkey in November 16, 2015, a short Japan-Saudi Arabia summit meeting was held. PM Abe explained that, based on the concept of ‘the best way is to go in the middle’,⁴⁵⁵ Japan will focus its attention on providing the support necessary to cultivate a moderate middle class and to strengthen governance underpinned by an affluent society and economy in the Middle Eastern countries. He stated that Japan hopes to maintain closer communications with Saudi Arabia. King Salman responded that the Saudi government intends to deepen its cooperative relationship with Japan.

4.2 Technical cooperation on energy-saving and storage

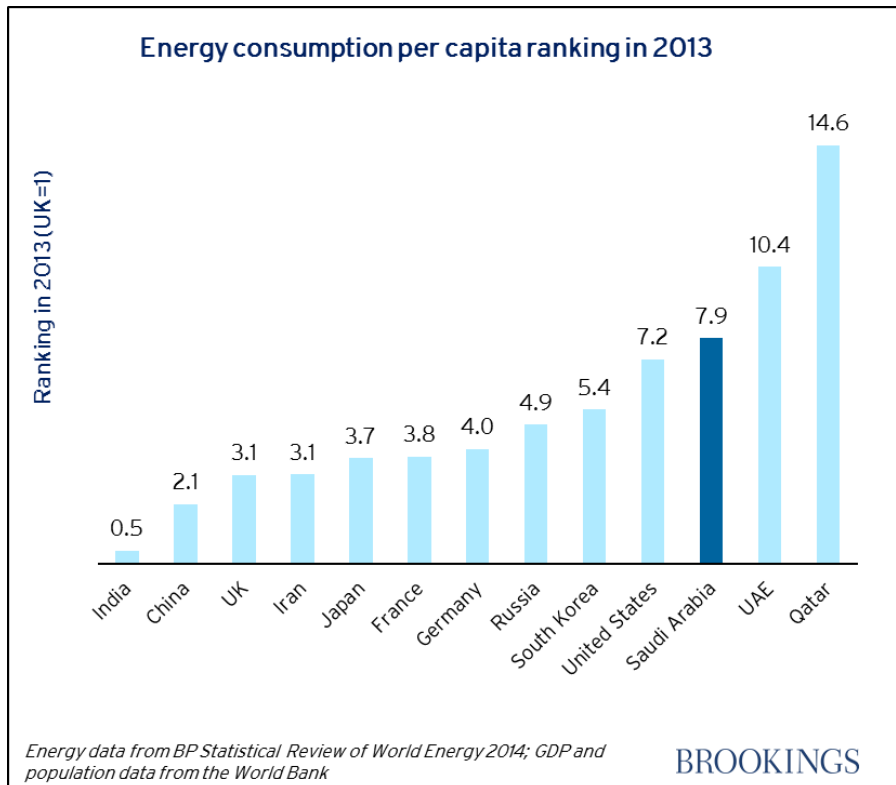
4.2.1 Japan’s collaboration with Saudi Energy Efficiency Programme

Domestic oil consumption in the Arab oil-producing countries has steadily increased in recent years. As shown on Figure 6, the energy consumption per capita ranking in 2013 in Saudi Arabia, the United Arab Emirates and Qatar is among the highest in the world. This can be explained by high domestic energy consumption of cheap gasoline and electricity, which is heavily subsidized by the

⁴⁵⁵ Ministry of Foreign Affairs of Japan, ‘Speech by Prime Minister Abe: “The Best Way is to Go in the Middle”’ (January 18, 2015). Available at: http://www.mofa.go.jp/me_a/me1/eg/page24e_000067.html (accessed on July 16, 2016).

government, rather than a rapid growth of the economy and population. The transition of oil-producing countries transforming into oil-importing countries was already predicted in recent studies by the Jadwa Investment in May 2011⁴⁵⁶ and Chatham House in November 2011.⁴⁵⁷

Figure 6. Energy consumption per capita ranking in 2013



Source: Hino, Yukari, 'Saudi Arabia field report: Another potential oil crisis in the Middle East', *Brookings Institution* (July 2, 2015). Available at:

<http://www.brookings.edu/blogs/markaz/posts/2015/07/02-saudi-energy-subsidies-hino>

(accessed on April 30, 2016).

⁴⁵⁶ 'Saudi Arabia's coming oil and fiscal challenge' *Arab News* (July 20, 2011).

⁴⁵⁷ Lahn, Glada and Paul Stevens, 'Burning oil to keep cool: The hidden energy crisis in Saudi Arabia', *Chatham House* (December 1, 2011). Available at:

https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Energy%2C%20Environment%20and%20Development/1211pr_lahn_stevens.pdf website (accessed on July 15, 2016).

In addition, Middle Eastern oil-producing countries, which depended on crude oil to balance their state budget, had experienced a period of budget deficit in the 1980s and 1990s, often as a result of the declining oil price on the global oil market.⁴⁵⁸ In the situation of an anticipated slump in oil prices, those countries cannot avoid introducing energy-saving and efficiency technology to reduce domestic energy consumption as well as prioritizing energy-effective infrastructure construction. This applies to Saudi Arabia in particular. It is crucial for Saudi Arabia indeed to implement a full-scale energy-saving policy and diversification of its energy sources to continue its economic growth. For the first time, on the occasion of the Abu Dhabi Sustainability Week in January 2019, Saudi Minister of Energy, Industry, and Mineral Resources Khalid al-Falih, mentioned the reduction of energy consumption by utilizing energy efficiency technologies.⁴⁵⁹

With the cooperation of the United Nations Development Programme since 2003, the Saudi government established the National Energy Efficiency Program (NEEP), under the initiative of the King ‘Abd al-‘Aziz City for Science and Technology (KACST), Saudi Aramco, and Saudi Basic Industries Corporation (SABIC).⁴⁶⁰ In 2010, the Saudi Energy Efficiency Centre (SEEC) was established in KACST to ‘support the conservation of national energy resources and develop

⁴⁵⁸ Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry, ‘Japan’s Energy White Paper 2016’ (especially Part 1. Analysis of the reasons of oil price decline and the prospects, 1. Oil pricing mechanism and oil price decline in the past, (2) Phases oil price decline in the past), (in Japanese) (2016). Available at: <http://www.enecho.meti.go.jp/about/whitepaper/2016html/1-1-1.html> (accessed on July 30, 2016).

⁴⁵⁹ El Gamal, Rania, and Stanley Carvalho, ‘Saudi Arabia sees domestic energy use falling, plans renewables push’, *Reuters*, January 15, 2019.

⁴⁶⁰ Al-Yousef, Yousef and Abdulhadi Varnham, ‘Saudi Arabia’s national energy efficiency programme: description, achievements and way forward’, in *International Journal of Low-Carbon Technologies*, 5.4 (December 2010): pp.291-297.

the national economy through rationalizing energy consumption and increasing energy efficiency in order to meet the national energy intensity target'.⁴⁶¹

Finally, the Saudi government established a special-purpose organization, the Saudi Energy Efficiency Program (SEEP), in 2012 to push forward its energy-saving policy. This full-scale energy-saving development initiative was headed by Prince 'Abd al-'Aziz bin Salman, then Deputy Minister of the Ministry of Petroleum and Mineral Resources. As illustrated in Diagram 1, SEEP is composed of:

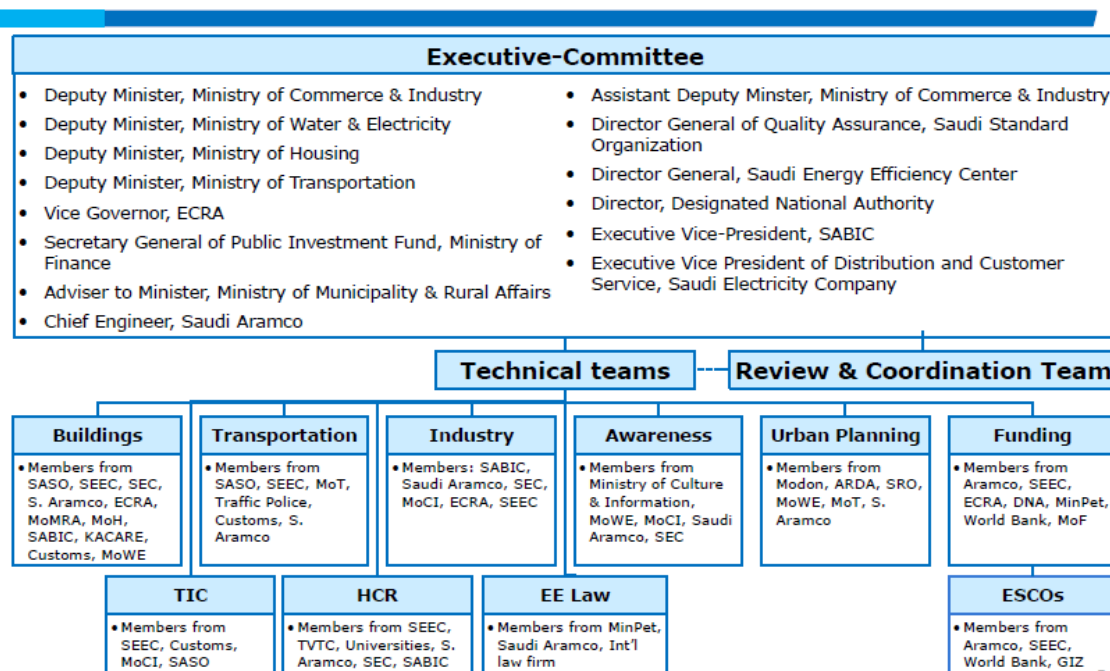
- * an executive committee comprised of the grades of senior vice minister or secretary general of 14 ministries and government offices, including the ministries of Commerce and Industry, Water and Electricity, Housing, Transport, Finance, Municipal and Rural Affairs, and Saudi Aramco, the Saudi Standards, Quality and Metrology Organization (SASO), SEEC, Saudi Electric, SABIC, and Designated National Authority (DNA); and:

- * technical teams comprised of approximately 150 members from 30 ministries and government offices, largely initiated by Saudi Aramco.

⁴⁶¹ King 'Abd al-'Aziz City for Science and Technology, 'Introduction, Saudi Energy Efficiency Centre, Mission,' n.d. Available at: <https://www.kacst.edu.sa/eng/RD/Pages/content.aspx?dID=83> (accessed on July 31, 2018).

Diagram 1. Organizational structure of the Saudi energy efficiency program

SEEP has mobilized 150+ engineers from 20+ organizations with a high-level Executive-committee to steer the effort



Source: SEEP Technical Team, 'Saudi Energy Efficiency Program', *Saudi Energy Efficiency Centre* (May 2015). Available at: http://c.ymcdn.com/sites/www.linkme.qa/resource/resmgr/Presentations/Saudi_Energy_Efficiency_Prog.pdf (accessed on July 16, 2016).

SEEP set three incentive-fields for the energy-saving industry; (1) building, (2) transportation, and (3) manufacturing, and introduced energy-saving efficiency standards and labelling systems in relation to home appliances, such as air-conditioners and refrigerators,⁴⁶² then installed energy-saving regulations for the newly-constructed buildings (regulations and standardization of the insulation material for residential constructions). In November 2014, SEEP officially

⁴⁶² United Nations Development Programme - Saudi Arabia, 'Saudi Arabia: government join forces to implement energy efficiency labels' (2016). Available at: http://www.sa.undp.org/content/saudi_arabia/en/home/ourwork/environmentandenergy/successstories/ee_implementation.html (accessed on July 16, 2016).

announced the introduction of the first car mileage regulation in the Middle East from 2016 in cooperation with the ministries of Petroleum and Mineral Resources, Commerce and Industry, and SASO. In addition, in the manufacturing industry, full-scale introduction of energy-saving measures in the fields of petrochemical, cement, and steel industries were discussed. After 2013 in particular, energy-saving regulations in the field of home appliances, including air-conditioners, refrigerators and washing machines, were strengthened in the Saudi market, introducing specific sticker labelling of energy-saving efficiency on each appliance. Most of the Saudi dealers complied with the labelling regulations.

In order to secure energy supply, the Japanese government considered assisting oil-producing countries' energy conservation measures. The diffusion of Japan's advanced energy-saving technologies and systems widely in the Middle East was viewed by Tokyo as an effective means to construct and maintain an energy conservation system in each Middle Eastern country. In particular, the Saudi government had been trying to establish the energy conservation system in recent years, while promoting economic and industrial reforms by reducing subsidies, due to a decline in crude oil revenues. The Saudi government also emphasized the importance of energy conservation and put a priority on introducing energy saving policy in the Saudi Vision 2030. The Japanese government understood that the resolution of these issues in Saudi Arabia would not only contribute to the stabilization of the global energy supply and demand but also secure Japan's energy security. Upon the Saudi government's request, Japan's Ministry of Economy, Trade and Industry (METI) held regular meetings, dispatched Japanese experts, and organized energy-saving technical seminars as well as workshops from 2013. The Japanese government offered its technical

experiences and know-how to assist the Saudi government' policy for the reduction of energy consumption and its efficient implementation.

The following is an example of practical cooperation regarding renewable energy. A Japanese oil company, Showa-Shell Co., of which 15% is held by Aramco, established a 100% subsidiary, Solar Frontier Co., in 2000 in Japan. The company had several renewable energy projects in Saudi Arabia, including photovoltaic power generation facilities with ten kW capacity in King Abdullah University of Science and Technology and with 500 kW capacity on the Farasan Islands (south-west).⁴⁶³ The solar panel and battery business market in Saudi Arabia has a huge potential for Japanese companies because of the kingdom's quantity of sunlight ⁴⁶⁴ and the Saudi government's initiatives of energy diversification through sustainable energy solutions.⁴⁶⁵

On another occasion, Tokyo Electric Power Co. concluded a consulting agreement with the Saudi Electricity Company (SEC) on the efficient utilization of electricity in June 2014⁴⁶⁶ following the conclusion of the Memorandum of Understanding on general cooperation in 2009. JICA's master plan for energy-saving in Saudi Arabia was initiated in 2007 as a research project of energy consumption and demand and its policy-making. In 2009, JICA drafted and

⁴⁶³ Al-Zilai, Ahmed, 'Saudi Arabia's first solar power station inaugurated on Farasan Island', *Al-Arabiya News*, October 5, 2011.

⁴⁶⁴ The energy capacity per square meter within 12-hour daylight is seven kWh.

⁴⁶⁵ Namikawa, Shohei. 'Saudi Arabia ga mezasu taiyoo-koo hatsuden sangyoo to Nihon ni kitai sareru yakuwari (Saudi Arabia's strategy for solar power generation industry and the expected role by Japan)', in *Column and Research Report, Mizuho Information & Research Institute* (October 1, 2014). Available at: <http://www.mizuho-ir.co.jp/publication/column/2014/kankyo1001.html> (accessed on July 22, 2016).

⁴⁶⁶ Tokyo Electric Power Company, 'Conclusion of consulting contract on the efficient use of electricity in the Kingdom of Saudi Arabia' (June 11, 2014). Available at: http://www.tepco.co.jp/en/press/corp-com/release/2014/1237671_5892.html (accessed on July 22, 2016).

submitted an advanced master plan, including 13 suggestions of energy-saving and how to implement them. SEEP's energy-saving programme was targeted at the energy-demand side, while JICA's energy master plan was targeted at the supply-side.

The energy-saving technical collaboration between Saudi Arabia and Japan has strong potential in the fields of home appliances (air-conditioners), car industries (fuel consumption regulations and testing facilities), and energy management system (EMS) in heavy industries (cement, steel, and petrochemical industries). In particular, the system designed for setting regulations in home appliances and car industries can be introduced in Saudi industries. Japan also supported the Saudi energy-saving programme by providing consulting during the establishment of original system design and practical methodologies in the industries involved. Japanese vocational training systems, especially for industrial EMS, was useful to train Saudi technicians, based on the international energy-saving standard of ISO50001.

The sectors in which the Saudi government suggested to apply energy-saving policies⁴⁶⁷ were:

- Construction: insulation material standards and product control mechanisms, standardization and labelling regulations in air-conditioners and home appliances, and energy usage intensity targets for governmental, commercial, and residential buildings;
- Industry: energy management systems, energy conservation in petrochemical plants, steel mills, and cement plants, ISO50001,

⁴⁶⁷ Al-Yousef and Varnham, *op. cit.*

standardization and testing laboratory of industrial motors;

- District cooling (DC) system; DC regulations and standards;
- Energy service companies (ESCO); for example, overview of ESCO business models in Japan and its regulatory framework and promotion of the energy services market and ESCO;
- Transportation: light-duty vehicle fuel economy standards, tire rolling resistance and wet grip standards, and anti-idling regulations for tractor trailers.⁴⁶⁸

These collaborations were based on the experience of the Japanese government in international collaboration with other Asian countries through Japan's Official Development Aid programme⁴⁶⁹ and most of that value-added cooperation could be shared with the Saudi government. The introduction of management and administration including Saudi human resource development and its effective operation, including technology transfer cooperation, are essential to cooperation between the two countries.

Understanding Japan's experience of international cooperation and technology transfer through the government's worldwide Official Development Aid scheme is useful here.⁴⁷⁰ Obviously, Japanese energy-saving technology and experience had been implemented in specific environmental and industrial conditions, which was difficult to apply in the Saudi context. Moreover, there exists a different

⁴⁶⁸ 'Saudi Arabia ni okeru sho-ene seido kakuritsu - fukyuu shien jigyo (Supportive projects for establishing institutions of energy saving - dissemination in Saudi Arabia)', Report (power point) in February 2016, *Mitsubishi Research Institute, Inc.* (February 2016) (in Japanese)

⁴⁶⁹ Evans, Peter C., 'Japan's Green Aid Plan: The limits of state-Led technology Transfer', in *Asian Survey* 39.6 (1999), pp.825-844.

⁴⁷⁰ Hatch, Walter, and Kozo Yamamura, *Asia in Japan's embrace: building a regional production alliance* (Cambridge: Cambridge University Press, 1996): pp.128-131.

consciousness of energy-saving and a different sense of impending energy crisis in energy-scarce Japan and oil-producing Saudi Arabia. In the city of Jeddah, many building owners force their tenants to operate air-conditioners throughout the year. Furthermore, construction companies tend to design buildings with just two-decade durability as a convenient way to save on construction and insulation material costs.⁴⁷¹ In order to emphasize the importance of energy-saving activities among Saudi citizens and to extend public awareness on energy-saving, SEEP adopted an effective public relations approach through nationwide-popular social network services and seminars together with its Japanese governmental partners.⁴⁷² However, despite these campaigns, it is likely that it will take a long time before the significance of energy-saving fully reaches public awareness. In addition, GCC member states with many expatriates in its population need non-Arabic campaigns in public relations.⁴⁷³

4.2.2 Joint oil storage project in Okinawa Island, Japan

⁴⁷¹ Author's interviews with residents in Jeddah (2015).

⁴⁷² 'Saudi Arabia ni okeru sho-energy seido kakuritsu – fukyuu shien jigyo, Hookokusho (Report: Supporting project on the establishment and diffusion of energy-saving system in Saudi Arabia)', in a presentation material to Agency of Natural Resources and Energy, METI, *Mitsubishi Research Institute, Inc.* (March, 2014). Available at: http://www.meti.go.jp/medi_lib/report/2014fy/E003922.pdf (accessed on July 31, 2016).

⁴⁷³ For references, several such energy-saving campaigns have been conducted in the Middle East: Energy Efficiency in the Construction Sector in the Mediterranean, initiated by the German Development Cooperation (GIZ) under the Euro-Mediterranean Partnership (EUROMED) in North Africa since 2006; the Regional Centre for Renewable Energy & Energy Efficiency, supported by the European Union, GIZ, the Danish International Development Agency and the New and Renewable Energy Authority in Egypt since 2008; thirdly, Masdar (Abu Dhabi Future Energy Company), Masdar City, the International Renewable Energy Agency and the World Future Energy Summit in the United Arab Emirates; and finally, the Arab League's Arab EE Guideline based on European Union directive 2006/32/EC on energy end-use efficiency and energy service known as 'Service Directive' and National Energy Efficiency Action Plan (NEEAP).

Economic relations in the field of oil industry between Saudi Arabia and Japan were further deepened when Saudi Aramco agreed with the Japanese Ministry of Economy, Trade and Industry and its affiliated organization, Japan Oil, Gas and Metals National Corporation (JOGMEC), to store crude oil on Okinawa Island in June 2010. It was aimed at export to Asian countries, while providing Japan with oil in the case of emergency. The oil storage business began with a capacity of approximately 3.8 million barrels in Okinawa. The contract was renewed in December 2013, with an increased capacity of up to 6.3 million barrels.

Aramco, which supplies Japan with approximately one million barrels per day, representing almost 30% of Japan's oil imports,⁴⁷⁴ has utilized the crude oil storage project in Okinawa in cooperation with the Japanese government since then. In an environment of intensified competition between oil-producing countries, Aramco also accelerated its crude oil sales business based in Okinawa to offer a more flexible supply system to the Asian oil companies. According to statistics of the Japanese Agency of Natural Resources and Energy, Japan's crude oil import from Saudi Arabia in 2015 amounted to 1.1 million barrels per day, which consisted of 33.8% of dependence rate, out of 82.5% of total dependence rate on the Middle East.⁴⁷⁵

In May 2010, Aramco announced an 80-billion US dollars business plan in order to accelerate merger and investments on the Asian oil refinery and

⁴⁷⁴ Al-Sadiq, Adil, 'Aramco's projects in 'the land of the rising sun, "Japan" – Gateway to Asia', in *Aramco Asia Japan's Quarterly Magazine, Dimensions International* (Fall 2014), p.4.

⁴⁷⁵ Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry, 'Japan's Energy White Paper 2017' (especially Part 3. Trend of Primary Energy) (in Japanese) (2017). Available at : <http://www.enecho.meti.go.jp/about/whitepaper/2017html/2-1-3.html> (accessed on August 20, 2018).

petrochemical market as well as business collaboration with Asian oil companies so as to secure oil demand within the following five years. The oil storage business model contributed to a flexible oil supply between producers and consumers. Both countries also benefited from the location of Okinawa Island, in terms of shorter distance of delivery and decreased transportation and insurance costs.

A governmental organization, the Japan – Saudi Arabia Industrial Cooperation Task Force (TF), celebrated its tenth anniversary in 2017. In a period of protracted oil price slump, the Japanese manufacturing sector's contribution to energy-saving technology was valued in Saudi industries. In earlier phases of bilateral relations, Japanese companies' interest had focussed on heavy industry, such as oil and petrochemical. However, Saudi requests for business consultation in the 2010s have revolved around infrastructure, renewal energy, energy-saving, and miscellaneous retailing. Japanese companies have adapted their business strategies to this evolution, while starting to look for business feasibility in rising economies to survive outside of the shrinking Japanese domestic market.⁴⁷⁶ For example, Japanese Reverse Osmosis (R/O) membrane manufacturing company, Toray, established a limited liability company (LLC), Toray Membrane Middle East, in Dammam with a Saudi energy giant, Abu-Nayan Holding Co. in 2014.

The Japanese government will also have the opportunity to extend its original business expertise in energy-saving technology to other GCC member countries

⁴⁷⁶ Author's interviews with TF staff members (December 2016). See also 'Nihon kigyomo neshisen – Infra juyo ya koobai ryoku ni takamaru kanshin (Japanese companies' keen business interests – Growing interests in infrastructural demand and purchasing power)', in *3. New relations, Special report, Shin-kyokumen wo mukaeru wangan senryaku – Shigen wo koete fukamaru kankei (Strategy for the Gulf in a new phase – deepening relations beyond resources)*, *International Development Journal* 681 (August 2013), pp.28-29.

and to support Japanese companies' investment in the projects in these countries, while sustaining reciprocal relations with Saudi Arabia.

However, some aspects and constraints of the Saudi business environment remain unfamiliar to Japanese companies. Most joint venture companies have had to employ Saudi nationals, given the *Nitaqat* rules, as explained in section 3.1.1 (3). The hiring of skilled and experienced Saudi nationals, however, has sometimes been a difficult obligation to comply with for international joint ventures. In fact, the government's infrastructure construction initiative is still a prime engine of Saudi economic growth and largely attracts foreign investment. Therefore, in the pre-qualification process in international tenders, most of the technology adopted in these infrastructure projects must have assured supply records worldwide as part of the bidding conditions. This is similar to the situation in retail product sales as the established brand of manufacturers are highly valued by Saudi customers who, according to interviews conducted with retailers and merchants, seem to prefer to purchase well-known foreign products rather than domestic ones. More generally, their business strategy was quite conservative and they invested a substantial share of their wealth into real estate businesses in Europe.⁴⁷⁷ Accordingly, the needs for innovative technology has been in practice subordinated in infrastructure business tenders, and many projects were in financial (not technical) bidding competition (for a lower price) with conventional technologies where Japanese companies could not show their advantages.

As a result, in the process of a joint manufacturing business with a Saudi company, the Japanese government needed to carry out joint technology

⁴⁷⁷ Author's business meetings with Saudi largest retailer Azizia Panda and other merchants in Jeddah (2014).

development that was fully compliant with the needs in Saudi Arabia from the beginning of the research and development initiative and to commercialize the pilot plant within a few years to achieve the realization of a large-scale commercial plant. It was, therefore, necessary to collaborate with a local governmental organization which had a good grasp of the specific domestic business needs and to engage in joint technological development with its Saudi partner. This joint development scheme with the Saudi partner was indispensable in terms of the development of new business and technical vocational training in Saudi Arabia.⁴⁷⁸

4.3 Japan-Saudi defence and security collaboration

4.3.1 Japan's national security-related legislation and the Middle East

On September 19, 2015, a historical piece of legislation was approved by the Japanese Diet following a confrontational process. It comprised of 11 different bills of security-related legislation that included a new legislation for 'international peace support' and ten amended bills, including the Japanese Self-Defence Forces (SDF) Law reform bill. This legislation is likely to have a critical impact on Japan's relations with the Middle East, and especially with Saudi Arabia as it is bound to significantly affect both Japan's economic diplomacy and SDF activities in the Middle East, as shown below.

⁴⁷⁸ Arai, Motoyuki, 'Oodan-gata no jikko butai secchi wo (Set-up of a cross-practice team)', in *3. New relations, Special report, Shin-kyokumen wo mukaeru wangan senryaku – Shigen wo koete fukamaru kankei (Strategy for the Gulf in a new phase – deepening relations beyond resources)*, *International Development Journal*, 681 (August 2013), pp.26-27.

Through this legislation, Japan will be able to explore new economic cooperation involving high-tech industrial collaboration in defence and security industries. The Middle East region is assumed to be one of the prime markets in this context because of its purchasing power. In particular, based on the joint venture companies established between Japan and Saudi Arabia, the two countries have the potential to transform their economic relations into technically-value-added collaboration in defence and security industries. Although Japanese citizens' as well as company's shareholders' aversion towards direct defence cooperation is extremely high, the new industrial collaboration system has the possibility to shift the Japanese industrial structure in the longer term.

The business environment of the defence equipment industry in Japan is not fully active and the national defence budget has been limited. However, according to the statistics of the Ministry of Defence, expenditures relating to the purchase of imported defence equipment, including the American military carrier Osprey, the unmanned aircraft Golden Hawk, and the next-generation fighter F35 drastically rose in 2015. Japanese officers claimed that domestic defence and security industry suffered from these expensive imports and remained unable to compete on the international defence market, even if the United States' defence market showed slightly positive signs for Japanese defence and security products.⁴⁷⁹ The possible targets of the *made-in-Japan* defence equipment overseas transfer are thought to be not only submarines⁴⁸⁰ or rescue flying boats⁴⁸¹ but also various industrial materials and products. For example, there

⁴⁷⁹ Kelly, Tim and Nobuhiro Kubo, 'U.S. agrees to waive restrictions on Japanese military component imports', *Reuters*, June 4, 2016.

⁴⁸⁰ Kelly, Tim, Cyril Altmeyer and Colin Packham, 'How France sank Japan's \$40 billion Australian submarine dream', *Reuters*, April 29, 2016.

⁴⁸¹ 'ShinMaywa US-2 STOL Search and Rescue Amphibian, Japan', *Naval Technology*

are high-performance carbon fibre, small-sized convex / concave lenses, aero-equipment,⁴⁸² and photomultiplier tubes for astronomical equipment which are competitive on the international defence market in terms of technology and costs. In fact, air-conditioner manufacturer Daikin Industries Ltd.'s Defence Systems Division manufactures high-quality shells, warheads, and aeroplane parts.

However, no system which combines these business seeds of products with the needs on the international market has been established despite discussions in the past.⁴⁸³ For instance, Japanese companies need to register themselves in the defence equipment supplier catalogue which is officially recognized by the United States' Department of Defence and NATO.⁴⁸⁴ From past experiences in the Japanese defence industry, no single private company has taken the initiative of registration. Without the leadership of the Japanese government, it is too risky for private companies to develop defence business abroad for fear of unexpected effects on their conventional industrial equipment business and company reputation (or strong opposition from shareholders). This is because of risk management, risk hedging (to the government) and recovering the initial cost as

(2016). Available at: <http://www.naval-technology.com/projects/shinmaywa-us-2-stol-search-and-rescue-amphibian/> (accessed on July 30, 2016).

⁴⁸² Keck, Zachary, 'China to Sell Saudi Arabia Drones', *The Diplomat*, May 8, 2014.

⁴⁸³ 'Chapter 7. Wagakuni bouei kiki sangyo no global-ka no hookousei (Direction of Japanese defence industry's globalization)', in *Sangyo no global-ka ga wagakuni no boei kiki sangyo ni oyobosu eikyoo no chosa kenkyuu hookokusho (Report of the research of the influence of industrial globalization on Japanese defence industry)*, in *The Japan Machinery Federation and Japan Forum for Strategic Studies* (March 11, 2011). Available at: <http://www.jfss.gr.jp/kiho%20ok/22sentan%2022.pdf> (accessed on July 30, 2016).

⁴⁸⁴ 'ITAR Part122 Registration of Manufactures and Exporters', 'Electric Code of Federal Regulations (e-CFR)', 'The International Traffic in Arms Regulations (ITAR)', *U.S. Department of State, Directorate of Defence Trade* accessed on July 26, 2016) Available at: https://www.pmdtc.state.gov/regulations_laws/itar.html *Controls* (December 16, 2015).

the Japan Business Federation (Keidanren) has suggested.⁴⁸⁵

No matter how feasible and profitable it may be, the Japanese government and companies' approach to military equipment business with Saudi Arabia has been exceptionally prudent because of the following two reasons.⁴⁸⁶ Firstly, it has to pay consideration to the Iranian business market. Indeed, Japan has historically paid significant attention to the relations with resource-rich Iran. Despite severe economic sanctions against Iran by the Trump administration in 2018, the Japanese government is likely to try to seek another opportunity to have potential energy-related business in the Iranian market. Secondly, careful consideration has been given to the alliance with the United States. No one can deny that the Japanese diplomatic anchor is still based on a structurally immutable alliance with Washington.

The second Abe administration's security policy since 2012 was substantially influenced by the continuous relationship with the United States. In a series of report of 'The United States-Japan Alliance' by Joseph Nye and Richard Armitage in 2007 and 2012, Japan was required to play an active role in supporting the United States in the fields of military and economy. For example, the 2007 report considered that 'it is extremely important that the Japanese Defence Ministry and the Self-Defence Forces are adequately resourced as they pursue modernization and reform'⁴⁸⁷ while the 2012 one advocated that 'Tokyo should enhance the

⁴⁸⁵ '(2) Bouei seisan / gijutsu kiban no genjoo (Current situation of defence production and basis of technology)', '1. Bouei sangyoo no genjoo to kankyoo henka (Current situation of defence industry and environmental changes in business)', in *Policy & Action, 'Suggestion for implementation of defence & security industry policy', Japan Business Federation (Keidanren)* (September 15, 2015). Available at: http://www.keidanren.or.jp/policy/2015/080_honbun.html (accessed on July 22, 2016).

⁴⁸⁶ Author's interview with a Japanese expert in Saudi Arabia (August 2015).

⁴⁸⁷ Nye, Joseph Jr. and Richard Armitage, 'The U.S.-Japan Alliance – Getting Asia Right through 2020', in *Centre for Strategic and International Studies* (2007), p.22.

legal abilities of the Ministry of Defence to protect bilateral and national security secrets and confidential information.⁴⁸⁸ Unsurprisingly, the Japanese 'Act on the Protection of Specially Designated Secrets' passed in December 2013 closely followed these recommendations. In addition, the Japanese Cabinet decision on the interpretation and amendment to accept the exercise of collective self-defence rights in July 2014 also followed in line with the 2007 report's recommendations, according to which 'the United States would welcome an alliance partner with greater latitude to engage where our shared security interests may be affected.'⁴⁸⁹ Last but not least, Japan's national security-related legislation adopted in September 2015 complied with the 2012 report's recommendation according to which 'it would be a responsible authorization on the part of Japan to allow U.S. forces and JSDF to respond in full cooperation throughout the security spectrum of peacetime, tension, crisis, and war.'⁴⁹⁰

Japanese foreign policy toward the Middle East had experienced a shift since Foreign Minister Kono took office in 2017. His policy, commonly known as 'Kono Initiative', has been to strengthen diplomatic relations with the Middle Eastern countries and to utilize the outcome to deepen the anchoring relations with the United States. This policy has been based on the view that Japan's involvement in the Middle East politics would ease the diplomatic burden of the United States.⁴⁹¹ Reasonably, Japanese diplomacy towards the Middle East cannot avoid taking into account its relations with the United States, particularly since the

⁴⁸⁸ Nye, Joseph Jr. and Richard Armitage, 'The U.S.-Japan Alliance – Anchoring Stability in Asia', in *Centre for Strategic and International Studies* (2012), p.16.

⁴⁸⁹ Nye and Armitage, 'The U.S.-Japan Alliance – Getting Asia Right', *op. cit.*

⁴⁹⁰ Nye and Armitage, 'The U.S.-Japan Alliance – Anchoring Stability', *op. cit.*

⁴⁹¹ 'Taibei kankei kyooka ni Chuuto rekihou ikasu (Utilize the visit to the Middle East to strengthen the relations with the US)', *Nikkei Shimbun newspaper*, September 14, 2017.

1970s when Japan was hit by the oil crisis. Under the tremendous strain of business risks, companies will also face domestic business obligations such as accountability to stockholders and the potential demise of companies' reputation which can in turn affect the valuation of their stocks.⁴⁹²

The Japanese 'three principles on arms exports and their related guidelines' were based on then Prime Minister Eisaku Sato's remarks at the Diet in 1967⁴⁹³ that the Japanese government does not approve arms exports to Communist countries, to countries which are prohibited by United Nations' resolutions, and to countries involved, or which may be involved, in international conflicts. The compliance with these principles was gradually eased, even in the period of the DPJ administrations between 2009 and 2012. Finally, the Liberal Democratic Party's Abe Cabinet approved in 2014 'the three principles on transfer of defence equipment and technology' which replaced the previous principles.⁴⁹⁴

The new three defence principles are the following:

- * It prohibits exports to countries which violated United Nations' Security Council resolutions.

- * It limits exports that did not secure transparency and conduct strict examinations.

- * It limits exports to the places where a proper control of defence equipment is not ensured.

⁴⁹² Hirose, Taisuke. 'Bouei sangyoo wo meguru mondai no honshitsu (Essential matters in Defence & Security Industry)', in *Graduates' report, Diplomacy and Defence, The Matsushita Institute of Government and Management* (August, 2013). Available at: <http://www.mskj.or.jp/report/3309.html> (accessed on July 22, 2016).

⁴⁹³ 'Three principles on arms exports', *Asahi Shimbun*, December 24, 2013.

⁴⁹⁴ Ministry of Foreign Affairs of Japan, 'Press Releases: the Three Principles of Transfer of Defense Equipment and Technology' (April 1, 2014). Available at: http://www.mofa.go.jp/press/release/press22e_000010.html (accessed on April 12, 2017).

The Japanese government streamlined the conditions to export military equipment by approving the new three defence principles and establishing the Acquisition, Technology & Logistics Agency (ATLA) in 2015 (see following section).

This new legislation can be considered as an unprecedented turning point in the Japanese policy of exporting defence equipment. The declared purpose of this legislation was to strengthen Japanese companies' competitiveness, to expand business opportunities abroad and to improve defence technology.

Moreover there is no question that this legislation was passed to answer the Japanese government's self-perception to be less valued by the international community, especially during the Gulf War in 1991, because the government could not dispatch SDF due to the constitutional restraints, despite providing an emergency bailout of approximate 13 billion US dollars to the US-led force.⁴⁹⁵ This was heavily criticized in the country because Japan's contribution was interpreted as a country which just paid the cost of international security (not military cooperation) and was uncooperative or limited to the recovery of regional security. Following the traumatic episode of 1991, Japan deployed SDF overseas within the frameworks of United Nations' peace-keeping operations (in 1992) and humanitarian aid to Iraq (in 2003). In 2004, Japan decided to use the right of collective self-defence by altering interpretations of the Constitution.⁴⁹⁶

In post-2003 Iraq, an unprecedented dispute in Japan occurred regarding constitutional interpretations about a possibility of the overseas deployment of

⁴⁹⁵ Tim Kelly and Nobuhiro Kubo, 'Gulf war trauma began Japan's retreat from pacifism', *Reuters*, December 20, 2015.

⁴⁹⁶ 'SDF prepares for international role', 'Japan's national security', *Nikkei Asian Review*, October 19, 2015.

Japan's SDF for the first time after the Second World War. As a result, the Japanese government decided to deploy forces abroad following the passing of Act No. 137 of 2003 (Special Measures concerning Humanitarian Relief and Reconstruction Work and Security Assistance in Iraq). The deployment in al-Muthanna governorate lasted from December 2003 to February 2009. During the debates, the Japanese Government insisted that this deployment would not lead to the use of arms, but was concentrating on humanitarian and reconstruction assistance of the country. In the end, the act did not allow the forces to carry weapons except the minimum ones and the other countries' forces actually ensured the protection of Japan's SDF.⁴⁹⁷

From 2009, SDF continued its activities in the anti-piracy operations off the coast of Somalia and in the Gulf of Aden.⁴⁹⁸ Although Japan withdrew SDF from the Republic of South Sudan in 2017, the government decided to resume a dispatch of two officers from the ground forces to the Multinational Force and Observers (MFO) Headquarters in Sinai Peninsula in Egypt from 2019, upon the latter's request. This is to be the first actual dispatch of SDF personnel as part of an international peace and safety operation since the new legislation was approved in 2015. In March 2019, a Japanese chief cabinet secretary expressed that the dispatch would enable Japan to contribute to MFO activities and to the peace and stability in the Middle East. The Japanese government expects that Japan's neutral position could bring a positive effect to MFO activities.⁴⁹⁹

⁴⁹⁷ 600 ground personnel for 2.5 years based in al-Muthanna governorate, 100 ground personnel for 3 months, in Kuwait; 330 navy personnel for 1.5 months in the Gulf; and 210 air force personnel for 5 years in Kuwait.

⁴⁹⁸ 400 Navy personnel off the coast of Somalia; 120 air force personnel in Djibouti; 70 ground personnel as part of the United Nations' mission in the Republic of South Sudan.

⁴⁹⁹ 'Jinteki na Kokusai Kouken no Ayumi wo tayasazuni (Sustaining human contribution to international activities), *Nikkei shimbun*, March 8, 2019 (in Japanese).

In addition to the above, another example of the cooperation in which the Japanese government has been involved is the security of sea-lane communications between the Gulf states and Asian countries. The United States has been pushing for a trilateral scheme combining partnerships with both Saudi Arabia and Japan as part of their foreign strategy for a pursuit of economic as well as strategic interests in the region.⁵⁰⁰ The establishment of this trilateral strategic collaboration framework on the Gulf sea-lane security has been encouraged by all parties.

4.3.2 Preparing defence collaboration with Saudi Arabia? Establishment of the Acquisition, Technology and Logistics Agency in Japan

On October 1, 2015, the Japanese government established a defence equipment agency, the Acquisition, Technology and Logistics Agency (ATLA), as a ministerial committee of the Ministry of Defence in charge of development, acquisition and export of defence equipment.⁵⁰¹ The annual defence industry market in Japan is worth 1.8 trillion yen (16.2 billion US dollars) which is equivalent to aerospace, shipbuilding or home appliances industries but definitely smaller than electronics industry (12 trillion yen) or manufacturing industry including automobile (52 trillion yen).

⁵⁰⁰ 'The Future of Sea Lane Security between the Middle East and South Asia', *Energy Studies Institute, National University of Singapore and Chatham House* (June 23-24, 2015). Available at: https://www.chathamhouse.org/sites/default/files/events/special/151115_SLOCS_Meeting_Summary_Final.pdf (accessed on April 22, 2019).

⁵⁰¹ 'Japan eyes collaborative defence development at home and abroad', *Nikkei Asian Review*, October 9, 2015.

Another objective that led to the creation of ATLA is the ambition to reduce costs of international procurement relating to military-related equipment. ATLA aims both to secure manufacturing business scale of defence equipment by exporting Japanese defence material and to reduce the costs by co-developing the equipment with international companies. Both aims are strictly bound by ‘the three principles of defence equipment transfer’ set in 2014. In a lecture given in 2015, ATLA Secretary Hideaki Watanabe stated that ATLA’s target is to use ‘advanced civilian technology’⁵⁰² in its defence industry so that Japan can position among the leaders in the international defence industry, demonstrating Japan’s state-of-the-art expertise in new materials, sensors, and robots. He emphasized that, in principle, Japanese territorial security and strategy in the Asia Pacific region is a bigger priority than the business-oriented overseas transfer of defence equipment,⁵⁰³ while ATLA will continue the development and procurement of defence equipment in cooperation with research institutes, such as the Japan Aerospace Exploration Agency (JAXA), the National Institute of Information and Communications Technology, and other ministries.

At the time when the Abe Cabinet adopted the three principles on transfer of defence equipment and technology in April 2014, an unrealistic image was presented according to which Japan would immediately export defence equipment manufactured at home. However, the only evidence according to which Japan-made defence equipment has been exported yet is METI’s annual report on the overseas transfer of defence equipment, which showed the number

⁵⁰² ‘Japan wants U.S. advice on procuring defense equipment’, *The Japan Times*, November 5, 2015.

⁵⁰³ *Ibid.*

of transfers as 12.⁵⁰⁴ In 2015, the Japanese government decided to dispatch a military attaché to the embassies in Jordan, Mongolia and United Arab Emirates in order to strengthen its military intelligence in East Asia and the Middle East.⁵⁰⁵ Jordan was chosen to collect and analyze terrorism-related information in the Middle East. As two Japanese citizens were killed by the Daesh organization in 2015, the Japanese government later shifted its regional intelligence activities to Jordan from Syria. Military attachés had already been dispatched to other Middle Eastern countries, including Saudi Arabia, Israel, Iran, Kuwait, Turkey, Egypt and Sudan.⁵⁰⁶ In addition, the geographical proximity to the Strait of Hormuz, where 80% of Japan's crude oil imports is routed, explains the choice of the United Arab Emirates.⁵⁰⁷ The collection of military intelligence in the region is assumed to be indispensable for manoeuvring underwater minesweeping in the Gulf based on the application of the right of collective self-defence.⁵⁰⁸

The legislation above had the potential to change the industrial structure in Japan. At the time of the legislation in September 2015, the Japan Business Federation (*Keidanren*) announced an economic proposal, entitled 'Proposal for Execution of Defence Industry Policy', which insisted that the technical

⁵⁰⁴ Ministry of Economy, Trade and Industry, 'Releasing the annual report on governmental permission of defence equipment overseas transfer' (October 15, 2015). Available at: <http://www.meti.go.jp/press/2015/10/20151015007/20151015007.html> (accessed on July 22, 2016).

⁵⁰⁵ '59 Japanese military attaché in 40 countries; Elite self-defense officers carry out intelligence analysis at the front', *Sankei Shimbun*, November 11, 2015.

⁵⁰⁶ 'Saudis posting attaché in Japan to bolster defence ties', *Nikkei Asian Review*, March 10, 2017.

⁵⁰⁷ Ishii, Noriyuki, 'METI Minister: Strait of Hormuz crisis would seriously impact Japanese economy', *Japan Atomic Industrial Forum, Inc. (news article)*, July 29, 2015.

⁵⁰⁸ Furthermore, military attaché were dispatch to seven African countries following the attack at the natural gas refinery site of In-Amenas (Algeria) in January 2015 on the occasion of which 37 people from 8 different countries were killed, including 10 Japanese engineers.

collaboration with foreign countries regarding military equipment and its export should be promoted at the level of a national strategy.⁵⁰⁹ Keidanren predicted that the role of SDF in troubled regions would increase in the future, as well as the domestic defence industry's assistance in technically-supporting SDF activities, and proposed to set a long-term strategy of enhancing international competitiveness and business profitability in the defence equipment industry. More concretely, Keidanren suggested the following three priorities: (1) response to offset demands and operational training; (2) design, creation and utilization of a new Japanese financial system, similar to the United States' Foreign Military Sales (FMS); and (3) collaboration between the public and private sectors to determine roles and sharing the risks in the defence business.⁵¹⁰ However, in order to comply with these approaches, the recruitment of skilled officers who are familiar with the defence industry and business, financial operation, and logistic procedures would be necessary, which raises questions about the availability of these skills on the Japanese job market.

On the other hand, the Ministry of Defence began to explore the establishment of a new financial support scheme in order to foster the export of military equipment and accessories. This scheme would provide financial support to foreign countries for them to purchase Japanese military equipment but also to Japanese companies to start joint development with those partners and countries which the Japanese official development aid scheme cannot cooperate with.⁵¹¹

⁵⁰⁹ 'Proposal for Execution of Defence Industry Policy', *Japan Business Federation (Keidanren)* (September 15, 2015). Available at: https://www.keidanren.or.jp/en/policy/2015/080_proposal.html (accessed on July 24, 2016).

⁵¹⁰ *Ibid.*

⁵¹¹ Kelly, Tim and Nobuhiro Kubo, 'Japan mulls financing body to boost weapons export', *Reuters*, November 27, 2014.

Assuming widespread disinclination for such a scheme among the general opinion, the Ministry of Defence decided in 2015 to set up an ad hoc committee comprised of academics and intellectuals to discuss all the factors able to promote the export of military equipment and to favour regional security. In this report, the committee suggested that the Japanese government should put more effort in developing relations with Middle Eastern countries, while working to preserve dialogue with the United States, European countries and Australia in order to favour security in Pacific Asia. The committee also mentioned that 'it is necessary to investigate what contribution of defence equipment and technology transfer could be realistic within the framework of Japanese security policy, considering the fact that the political stability in the energy-rich Middle East is vital for Japanese energy policy'.⁵¹²

The Japanese government is also encouraging the export of military equipment within the framework of the existing legislation. It is assumed that when a developing country purchases military equipment from Japan, the Japanese government will assist the purchase, by providing grants and ODA loans, or when Japanese companies participate in joint development and production of military equipment which would enlarge the country's industrial development, the Japanese government will provide low interest financing with those companies. In June 2014, the Ministry of Defence and 13 Japanese companies, including Mitsubishi Heavy Industries (MHI), Hitachi, and Fujitsu, set up a 'Japan Pavilion' in the defence and security exhibition Eurosatory, in Paris, for the first time in the

⁵¹² Ministry of Defence of Japan, "Bouei soubi – Gijutsu iten nikakaru shokadai ni kansuru kentokai' Hokokusho (Report by Investigation Committee of the issues on Defence Equipment and Technology Transfer)' (September 30, 2015). Available at: <http://www.mod.go.jp/j/approach/agenda/meeting/sobi-gijutsuiten/houkoku/01.pdf> (accessed on July 22, 2016).

history of the Japanese defence industry.⁵¹³

However, it is a fact that the three principles alone cannot lift the domestic defence industry and that the business environment in the defence industry will not drastically change in the short term. The prime purpose of these principles was to draft a basic strategy for defence manufacturing and technology and to implement them, not to support the defence industry itself.⁵¹⁴ It does not seem to be realistic to position the defence industry at the centre of Japanese economic activities nor to use it as a diplomatic tool. It is also impossible to objectively evaluate whether the strategy to supply defence equipment to a specific country could help enhance diplomatic ties. In fact, as an evidence of all the questions that this strategy keeps raising, ATLA did not manage to secure the business opportunities of submarine for Australia in 2016⁵¹⁵ and the aviation radar defence system for Thai Air Force in 2018 in the international tenders.

In addition to the export of military equipment, the Japanese government promoted high value-added aerospace business in the Middle East by concluding a memorandum of cooperation with the United Arab Emirates Space Agency (UAESA) in March 2016.⁵¹⁶ At the same time, Mitsubishi Heavy Industries (MHI) announced that the Mohammed bin Rashid Space Centre had ordered the rocket launcher which would carry its Mars space probe for a contract worth some billions of Japanese Yen.⁵¹⁷ MHI pushed forward its enthusiastic presence in the

⁵¹³ 'Japanese companies debut at international defense fair', *Kyodo News*, June 16, 2014.

⁵¹⁴ Sato, Heigo, 'Technology development and strategic trade control: Open market approach and military technology development', in *International Relations*, 179 (2015), pp.16-29.

⁵¹⁵ Kelly, Altmeyer and Packham, *op. cit.*

⁵¹⁶ Japan Aerospace Exploration Agency, 'JAXA and UAESA sign a cooperation arrangement' (March 16, 2016). Available at: http://global.jaxa.jp/press/2016/03/20160322_uaesa.html (accessed on July 24, 2016).

⁵¹⁷ Henry, Caleb, 'Mitsubishi Heavy Industries wins fourth international launch

overseas rocket launching business market by implementing the successful launch results in competition with Arianespace or SpaceX. As many cases demonstrate, these memoranda of cooperation are likely to have a (positive) impact on Saudi- Japanese collaboration and relations. Indeed, in many business fields, Japanese companies have launched businesses in the UAE as a trial before entering the Saudi Arabian market.

2016 and 2017 saw a series of developments in the collaboration between Japan and Saudi Arabia in the defence field. Firstly, the agreement on promotion of communications in the defence industry was confirmed between both Ministers of Defence Crown Prince Muhammad bin Salman and Ms. Tomomi Inada in September 2016 when the former made an official visit to Japan. According to the local press, he asked his counterpart to promote a strengthening of relations in the field of defence equipment, while the Japanese Minister replied that she wanted to discuss what kind of cooperation would be possible in the future. Muhammad bin Salman indicated expectations on the use of Japanese technologies in preparation for basic manufacturing systems of defence equipment in Saudi Arabia.⁵¹⁸ Prior to the meeting, the two governments signed a memorandum of understanding on defence exchanges, including calls of SDF's training naval vessels to Saudi ports, exchange programmes of naval officers and other communications.

Secondly, prior to the visit of the United States President to Riyadh in May 2017, the Saudi government announced the establishment of the Saudi Arabian Military

contract', *Via Satellite* (March 22, 2016). Available at: <http://www.satellitetoday.com/launch/2016/03/22/mitsubishi-heavy-industries-wins-fourth-international-launch-contract/> (accessed on July 24, 2016).

⁵¹⁸ 'Saudi Deputy Crown Prince had a meeting with Ms. Inada on defence equipment cooperation', *Nikkei Shimbun*, September 2, 2016.

Industries (SAMI), under Public Investment Fund (PIF)'s financial oversight, which would manufacture defence equipment for domestic use and create employment opportunities. SAMI would provide the Saudi government with four different military products and services, including aerospace / army systems and defence electronics. Also a joint venture company with global original equipment manufacturers would be established.⁵¹⁹ A former National Defence University professor, Paul Sullivan, expressed the view that 'expertise, supply chains, customer lines, finance, R&D infrastructure and more need to be developed', however that, 'they will need lots of outside help at first, but with the right training and education, investments and business development it is possible'.⁵²⁰ Muhammad bin Salman also appealed for SAMI's contribution to Vision 2030. However, there are only few possibilities for the Japanese government to be directly involved in the defence business with the Saudi government – because the manufacturing collaboration in Saudi Arabia is supposed to coordinate with US companies, such as Boeing, Lockheed Martin, and Honeywell International, among others. Additionally, domestic restrictions for exporting military equipment from Japan is strictly regulated.⁵²¹

In September 2017 though, *the Japan Times* featured a 12-page special dossier on the relations between Saudi Arabia and Japan, entitled 'Vision 2030: Creating strategic partnership with Japan', which included three defence-technology-related articles on the rise of a global technology powerhouse, the

⁵¹⁹ Al-Baqmi, Shuja, 'Saudi Arabia launches 'SAMI' for military industries', *al-Sharq al-Awsat*, May 18, 2017.

⁵²⁰ Carey, Glen and Alla Shahine, 'Saudi wealth fund starts defence company to meet military needs', *Bloomberg*, May 18, 2017.

⁵²¹ However, there is no restriction against military equipment manufactured by a foreign company which has merged with a Japanese one.

role of Japan in helping power Saudi economy and 'Blue-sky thinking' in defence technology⁵²² – showing that the Japanese press is confident in the future of the Saudi-Japanese defence collaboration.

A Saudi military and defence company, Advanced Electronics Company (AEC) in Riyadh is transforming its business activities from military-centralized manufacturing to engineering, maintenance, and solution service activities in the industrial fields of Information Communication Technology, Energy, and Security.

4.4 From 'Abd Allah to Salman: A new political order in Saudi Arabia

A series of changes in Saudi Arabia in January 2015, including a reshuffle just after King 'Abd Allah's death and an unprecedented replacement of an incumbent Crown Prince the same month, brought about large-scale speculation worldwide.⁵²³ A few days after Salman acceded the throne, 34 royal decrees, including royal, ministerial and administrative reshuffles and nominations, were issued on January 29, 2015. Then, a Saudi-led military coalition launched air-strike operation 'Decisive Storm' in Yemen on March 26, 2015 – renamed 'Renewal of Hope' on April 21, 2015.

A new comprehensive Cabinet reshuffle was implemented in April 2015. 26 royal decrees, including the resignation of Crown Prince Muqrin and the re-organization of the succession line (King Salman, Crown Prince Muhammad bin Naif and Deputy Crown Prince Muhammad bin Salman), were announced on

⁵²² 'Saudi Arabia', *The Japan Times*, September 22, 2017.

⁵²³ Madawi al-Rasheed, 'King Abdullah of Saudi Arabia obituary' *The Guardian*, January 22, 2015.

April 29. A few weeks later, on July 9, 2015, long-serving Minister of Foreign Affairs Prince Sa'ud passed away.

These political changes opened the door to the Saudi government setting out concrete steps to reshape the Saudi economic structure. The announcement of the economic strategy, called Vision 2030 in 2016, was originally rooted in the economic and administrative reforms initiated in 2015. The latter included the rise of electricity, water and gasoline along with reduction of subsidies as well as possible introduction of a value-added tax (VAT) which impacted Saudi citizens' economic activities – as we will see in more details below.

Muqrin's unprecedented marginalization by the April 2015 decrees was seen at the time as a cause of potential instability in the Kingdom⁵²⁴ by not only undermining King 'Abd Allah's style of governance and legacy, but also, and more substantially, by consolidating the power within the al-Sudairi branch without a balance among the increased number of royal family members. At that time, this move was undoubtedly welcomed by some royal family members who believed that the generational change within the family would be accelerated by the assignment of Muhammad bin Naif's position as Crown Prince, despite the fact that this decision was completely against the custom of the House of Al Sa'ud. This exceptional case, in which an incumbent Crown Prince was replaced by someone else, was indeed achieved by overturning the late King 'Abd Allah's past promise. Muqrin had been appointed as Deputy Crown Prince by 'Abd Allah in February 2013 and protected by a royal decree which was specifying that Muqrin's appointment could not be changed nor modified by any person, method

⁵²⁴ Jain, Sandhya, 'Saudi Arabia: King Salman faces the 21st century', in *Strategic Analysis* 39. 3 (2015), pp.280-286.

or form.

From a legal point of view, this assignment remained unclear. Although Article 5 of the 1992 Basic Law of Governance of Saudi Arabia stipulated that 'the King names the Crown Prince and may relieve him of his duties',⁵²⁵ Article 7 of the Succession Commission Law (the Law of Pledge of Allegiance Commission) dated 26 Ramadan 1427H – 19 October 2006 and issued by 'Abd Allah [Royal Order A /135], defines the way in which the Crown Prince is to be selected: 'After receiving the pledge of allegiance and after consultation with members of the Commission, the King shall choose one or two or three he deems fit to be crown prince. Such choice shall be brought before the [Pledge of Allegiance] Commission which shall exert effort to agree on one nominee to be named Crown Prince'.⁵²⁶ However, King Salman changed this assignment within the Saudi legal system as a new royal decree supersedes the old one. It appeared logical to promote Muhammad bin Naif to Crown Prince while he already held the charge of Deputy Crown Prince, however, the surprise came with the appointment of Muhammad bin Salman, who was born in 1985 Muhammad bin Salman and had been appointed as Defence Minister as well as President of the Royal Court, in replacement of Khaled al-Tuwajiri, when King Salman acceded the throne in January 2015.⁵²⁷

⁵²⁵ 'Saudi Arabia's Constitution of 1992 with Amendments through 2005', *Comparative Constitution Project* website (2005). Available at: https://www.constituteproject.org/constitution/Saudi_Arabia_2005.pdf (accessed on July 30, 2016).

⁵²⁶ Ansary, Abdullah, 'UPDATE: A Brief Overview of the Saudi Arabian Legal System', Hauser Global Law School Programme, *New York University Law School* (August 2015). Available at: http://www.nyulawglobal.org/globalex/Saudi_Arabia1.html (accessed on July 30, 2016).

⁵²⁷ 'Rise and fall of Saudi Arabia's al-Tuwajiri family', *The New Arab* (January 28, 2015). Available at: <https://www.alaraby.co.uk/english/features/2015/1/28/rise-and-fall-of-saudi-arabias-al-tuwajiri-family> (accessed on July 24, 2016).

Naturally, these sudden changes were interpreted by observers as a move by King Salman to favour again the concentration of power within the al-Sudairi family, quickly sweeping away the late King 'Abd Allah's influence – as illustrated by the removal of Prince Muqrin, Prince Mit'eb bin 'Abd Allah and other princes that had been appointed by 'Abd Allah from key positions. This was in sharp contrast with King 'Abd Allah's approach, who had tried to maintain a balance within the ruling family and had not side-lined the al-Sudairi family, but, on the contrary, given positions to them.⁵²⁸ Secondly, the King indicated a clear move towards Muhammad bin Salman becoming the future King.

One of the main concerns regarding this series of changes was whether or not other royal family members had agreed and would support these sudden appointments then and in the long run.⁵²⁹ Indeed, King Salman's appointments might cause unnecessary repulsion among the non al-Sudairi royal family members – and even among al-Sudairi family members – as both Muhammad bin Naif and Muhammad bin Salman are from the same branch, which substantially prevents any other prince from claiming the right to access the throne for decades. Moreover, with Muqrin's removal, King Salman had created a precedent in the Saudi royal history according to which the position of Crown Prince does not guarantee its holder to access the throne. The only exception so far had been the case of Crown Prince Muhammad bin 'Abd al-'Aziz (1910-1988) who voluntarily resigned after just four months on the condition of the appointment of his full brother Khaled. On the contrary, the resignation of Foreign

⁵²⁸ Nonneman, Gerd, 'Part IV. External Relations, Determinants and patterns of Saudi foreign policy: 'Omnibalancing' and 'Relative Autonomy' in multiple environments' in Aarts, Paul, and Gerd Nonneman. *op. cit.*, pp.335-340.

⁵²⁹ Jain, *op. cit.*

Minister Prince Sa'ud, who had held the position for almost four decades from 1975, and his appointment as a State Minister as well as an Advisor to the Royal Court, was reasonably predicted – while Muqrin was not granted any of these 'consolation' positions.⁵³⁰

These unprecedented reshuffles and the resulting intensifying opposition atmosphere could jolt the basic conception and paradigm of the Saudi political regime which had been advanced by dividing political power and consolidating the trend of consensus among the royal family members since the era of the first King 'Abd al-'Aziz. This could be a direct threat to King Salman, since an intensification of the confrontation among the turbulent and disappointed royal family members, could potentially bring political instability and the gradual demise of al-Sa'ud sovereignty in the long run.

The career of King Salman has been totally different from the ones of the previous kings. Firstly, he served all the kings for a long time and he served as a governor of Riyadh for more than 50 years. The capital city of Riyadh was the second largest city and had no more than 100,000 inhabitants when 19-year old young Salman was appointed as a governor by King 'Abd al-'Aziz in 1954.⁵³¹ King Salman's unprecedented decision to appoint princes belonging to the third and fourth generations to key posts could relieve their anxiety and satisfy them with change in the process of succession and promotions.⁵³²

⁵³⁰ Butt, Gerald, 'Saudi Arabia: Why succession could become a princely tussle', *BBC News*, January 23, 2015.

⁵³¹ 'ArRiyadh Urban Indicators 2009 / 1430 H', *al-Riyadh Newspaper*, May 9, 2016.

⁵³² Muto, Koji, 'Chapter 7 Salman dai-7-dai kokuoo – Samazama na taiwa wo omonjiru genjitsu shugisha (Salman, the 7th King – A realist who considers dialogues most important)' in Nakamura, Satoru, (ed.), *Saudi Arabia wo shiru tamen 63 sho Dai-2 han (63 chapters to know Saudi Arabia 2nd sedition)* (Tokyo: Akashi Shoten, 2015): pp.53-57.

4.5 Post-2015: Accelerated Saudi–Japan bilateral relations

By the leadership of both countries, bilateral relations between Saudi Arabia and Japan after 2015 have showed a consolidation of political economic ties as a direct result of the six-decade resilient diplomatic partnership – as illustrated by the commitment of the Japanese government, through the Ministry of Economy, Trade and Industry, to strengthen relations with Saudi Arabia ‘more than ever.’⁵³³ In particular, following the accession to the throne of King Salman, bilateral relations have revolved around the proclamation of the Saudi economic initiative ‘Saudi Vision 2030’ in April 2016, followed by the agreement on the Saudi-Japan Vision 2030 in March 2017.



Disclosure of the Saudi-Japan Vision 2030 and King Salman in Tokyo, March 2017.

Source: JCCME Archives

The Saudi-Japan Vision 2030 agreement illustrates an unprecedented level of bilateral partnership. Like the Saudi Vision 2030, it can and should be understood within the context of the economic and political changes that have followed the accession to the throne of King Salman in 2015, which was accompanied by the

⁵³³ Author’s interview with METI officers (January 2018).

announcement of substantial economic reforms. Following the announcement by Muhammad bin Salman of his Saudi Vision 2030 initiative in 2016, the Japanese government too this opportunity to work and expand mutual cooperation with Saudi Arabia by proposing the elaboration of the Saudi-Japan Vision 2030 agreement.

The Saudi Vision 2030 is based on a research report prepared in December 2015 by McKinsey consulting firm.⁵³⁴ It was announced by the Crown Prince, who has put all his political weight in it. He presented it as follows: ‘We are determined to reinforce and diversify the capabilities of our economy, turning our key strengths into enabling tools for a fully diversified future’.⁵³⁵ The National Transformation Programme (NTP) was announced in 2016 as an intermediate goal. The Vision 2030 is based on the realization that the fact that the Saudi national income’s heavy reliance on petroleum exports is not sustainable in a global economic and political environment in which global warming issues have become a critical variable taken into account by international decision-makers, and in which oil prices have been more fluctuant and unpredictable than ever. During the first half of 2014, crude oil prices in the international market exceeded 100 US dollars per barrel, before experiencing a major drop due to a combination of factors, including an economic downturn in China and other countries, the development of shale oil production in the United States, and a sustained high level of production in major oil producing countries. In January 2016, the price

⁵³⁴ McKinsey Global Institute, ‘Saudi Arabia beyond oil: the investment and productivity transformation’, December 2015. Available here: <https://www.mckinsey.com/featured-insights/employment-and-growth/moving-saudi-arabias-economy-beyond-oil> (accessed on April 24, 2019).

⁵³⁵ Saudi Vision 2030, ‘Our Vision: Saudi Arabia. The heart of the Arab and Islamic worlds, the investment powerhouse.’ Available at: <https://vision2030.gov.sa/en> (accessed on January 15, 2019).

reached 25-29 US dollars per barrel, its lowest level since 2003. This decline has had a major impact on finances of Middle Eastern countries,⁵³⁶ especially in oil-producing ones. Under these circumstances, the Saudi government has had the ambition to undertake a transition from a completely oil-dependent economic structure by announcing the Saudi Vision 2030, promoting the employment of Saudi nationals and the diversification of the domestic economy.

As a result of this personal commitment of the King and his son in this reform plan, there is a heightened sense of urgency among the Saudi leaders that the realization of the Saudi Vision 2030 is critical for the regime and the latter needs concrete results as soon as possible.⁵³⁷ As specific timelines and numerical targets were set for the implementation of Saudi Vision 2030, the Saudi government is aware that it will be held accountable if sufficient progress is not made. Officials in the Saudi government, in particular from the Ministry of Economy and Planning, the Ministry of Commerce and Investment and the Saudi Arabian General Investment Authority are thus under tremendous pressure.⁵³⁸

On the other hand, the Japanese government felt the need to respond to these Saudi ambitions. Indeed, the Japanese policy of strengthening infrastructure export business to Saudi Arabia ambitions to contribute to economic growth at home and to ensure security through stable oil supply. Thus, there is no doubt

⁵³⁶ 'Global Developments: Implications for the Middle East, North Africa, Afghanistan and Pakistan Region' and 'MENAP Oil Exporting Countries: Time to Accelerate Reforms' in Regional Economic Outlook, Update, Middle East, North Africa, Afghanistan, and Pakistan, World Economic and Financial Surveys, *International Monetary Fund* (May 2018) (accessed on February 1, 2019) available at <https://www.imf.org/en/Publications/REO/MECA/Issues/2018/04/24/mreo0518>

⁵³⁷ Author's interview with officers from the Ministry of Economy and Planning (Riyadh, October 2018).

⁵³⁸ Author's interview with Saudi officials at Ministry of Economy and Planning (February 2017).

that both governments share the same objective about the absolute necessity for the Saudi Vision 2030 and Saudi-Japan Vision 2030 to be successful, as foreign investors are cautiously observing the progress.

However, the concept of the Saudi Vision 2030 is based on a perspective which envisioned the ideal future of Saudi society. Diversification of the industrial structure is one of the priorities of the whole Saudi Vision 2030, while the Japanese mistakenly interpreted that economic diversification away from an oil-anchored industry is the principal goal of the Saudi Vision 2030.⁵³⁹ In fact, they are paying more attention to this economic factor than to Saudi social reform itself. Industrial diversification has been one of the priorities of the Saudi economic reform agendas since the 1970s. However, there are distinct differences between previous Saudi economic reform plans and Saudi Vision 2030. First of all, the fields of industrial diversification targeted by the Saudi Vision 2030 include mining (minerals), tourism, renewable energy, ICT, healthcare, and entertainment while previous reform plans were restricted to petrochemical, construction and financial sectors. Secondly, the Saudi Vision 2030 has emphasized the restructuring of the function and the role of the Public Investment Fund (PIF) in the Saudi economy. Last but not least, the Saudi government announced that they planned an initial public offering (IPO) for Aramco, as part of the Vision.

Following Salman's accession to the throne in 2015, the Saudi government put particular emphasis on Asian diplomacy and established Asian countries, such as Malaysia, Indonesia, Brunei, Japan and China, as priority destinations for official

⁵³⁹ A Japanese former ambassador to Saudi Arabia explained that the key to success of the Saudi Vision 2030 would be totally depend on a substantial success of Saudi human resource development. An interview with a Japanese former ambassador to Saudi Arabia in April 2018.

visits, in order to revitalize and develop economic relations. The initiative of reinforcing relations with Asian countries was aimed at establishing sustainable economic relations, especially down-streaming the oil business, while securing diplomatic balance at the same time.⁵⁴⁰ Although initiatives similar to the Saudi-Japan Vision 2030 were concluded with the United States, South Korea and China, officers at the Saudi Ministry of Economy and Planning interviewed by the author claim that the most advanced exchanges between private companies are the ones with Japan.⁵⁴¹ The reasons why the Saudi–Japan Vision 2030 can be considered as the most active among these various economic initiatives can be attributed to the assessment by the Saudi government that bilateral relations with Japan rely on a series of concrete achievements since their establishment in 1955, including the conclusion of joint venture projects in the manufacturing sector since 1975 and the establishment of human resource development institutes since 1990.

4.5.1 King Salman's Asian tour (March 2017)

King Salman's official visits to foreign countries have been rare. Thus, his one-month tour to four Asia-Pacific countries in March 2017, including Malaysia, Indonesia and China, and a three-day visit to Japan, is highly significant. Saudi Arabia has regarded China and Japan as extremely important economic partners to realizing its ambitious Saudi Vision 2030 economic and social reform plan. King

⁵⁴⁰ Feierstein, Gerald. M., 'Why King Salman went to Asia. Preserving flexibility in the Trump era', in *Foreign Affairs* (March 6, 2017).

⁵⁴¹ Author's interview with officers from the Ministry of Economy and Planning (Riyadh, October 2018).

Salman's Asian tour was aimed at expanding and developing economic relationships established with Asian trading partners since the beginning of the 21st century and can be seen as part of Saudi Arabia's increasingly Asian-focused policy. As Saudi economic reform is advocating an industrial diversification away from a petroleum-dependent economy, the expectation to receive investment and technical cooperation from Asian countries has gone with it.

More broadly, King Salman's intention was also to seek a guarantee of diplomatic flexibility in relations with the United States. Currently, the Saudi government maintains an advantageous relationship with the Trump administration, however, one can imagine that the relations between the two countries may be strained in the future, especially over the Palestinian question or Syria – to mention only a few hot topics.⁵⁴² It is thus fully understandable for King Salman to deepen its relations with Asian countries as a political insurance in the perspective of potential future tensions with Washington and the post-Trump time.

Nevertheless, the vast majority of economic outcomes of King Salman's visit to Asian countries had to do agreements related to the oil sector, illustrating the difficulty for Saudi Arabia to move away from its oil dependency. Saudi oil and gas industries have in fact extensive business potentiality despite the slump period experienced in 2016 and 2017. Saudi Aramco for instance has continued and accelerated its investments in the production of associated gas, and more generally in the gas sector, with the construction of new facilities, while upgraded existing refineries – in order to improve its environmental impact.

⁵⁴² Feierstein, Gerald. M., 'Why King Salman went to Asia – Preserving flexibility in the Trump era', in *Foreign Affairs*, March 6, 2017.

In Malaysia, an agreement was reached by Saudi Aramco to invest seven billion US dollars to set up a refinery in the Pengerang Integrated Petroleum Complex (PIPC), developed by Malaysian state-owned oil company Petronas.⁵⁴³ In Indonesia, the Saudi government announced that it would provide a one billion US dollar loan towards an Indonesian national development plan. Moreover, it reaffirmed its commitment to offer a six billion US dollar investment for the joint development of oil refineries in Cilacap in Java Island which had been agreed in December 2016 between Saudi Aramco and Indonesian state-owned oil company PT Pertamina.⁵⁴⁴

Furthermore, in China, an agreement was signed for oil refinery and petrochemical projects equivalent to 65 US billion dollars. This included the construction of oil refineries and petrochemical plants between Saudi Aramco and China North Industries Group Corporation (Norinco), but also another petrochemical project between SABIC and China Petrochemical Corporation (Sinopec).⁵⁴⁵

During this visit, it was pointed out that Saudi investments in Malaysia and Indonesia were made in return for the latter's political support against Iran. On the other hand, Japan and China were vying with each other for a leading position in the perspective of Saudi Aramco's initial public offering.

⁵⁴³ Saudi Aramco, 'PETRONAS, Saudi Aramco announce formation of two new joint ventures in Malaysia', March 28, 2018. Available at: <https://www.saudiaramco.com/en/news-media/news/2018/petronas-aramco-announce-formation-two-joint-ventures> (accessed on January 29, 2019).

⁵⁴⁴ Volkova, Margaret, 'Saudi Aramco and Pertamina sign JVDA for Cilacap refinery in central Java', *Market Report Company*, January 11, 2017.

⁵⁴⁵ Blanchard, Ben, 'China, Saudi Arabia eye \$65 billion in deals as king visits', *Reuters*, March 16, 2017 and 'China's Norinco and Saudi Aramco line up 10 billion refinery plan', *Reuters*, May 16, 2017.

4.5.2 King Salman's visit to Japan

On the occasion of his Asian tour, King Salman conducted an official visit to Japan from March 12 to 15, 2017. While he himself had visited Japan several times – as Governor of Riyadh in 1998 and as Crown Prince in 2014 –, this was the first visit of a Saudi King since King Faisal's visit to Tokyo in 1971.



King Faisal and Emperor Hirohito (in 1971); King Salman and Emperor Akihito (in 2017).
Source: Archives of Imperial Household Agency, Japan

The Saudi King held a summit meeting with Japanese Prime Minister Shinzo Abe on March 13. Both leaders agreed on the bilateral initiative of the Saudi–Japan Vision 2030⁵⁴⁶ which specified the direction of Japanese practical collaboration as part of the Saudi Vision 2030 announced the year before. It aimed to develop a comprehensive and strategic agreement between the two countries, materializing in bilateral cooperation in nine fields, including energy,

⁵⁴⁶ Ministry of Economy, Trade and Industry of Japan, 'Compass of new partnership, Saudi Japan Vision 2030' (March 2017). Available at: <http://www.meti.go.jp/press/2016/03/20170313006/20170313006-2.pdf> (accessed on January 18, 2019).

entertainment, healthcare, infrastructure and investment. Also, the decisions to establish specialized economic zones in Saudi Arabia, to bring investment treaties into effect and to facilitate visa issuing processes were approved.

On March 13, discussions also involved political cooperation and security issues. The contribution of the Japanese government in non-military fields was discussed, such as the early implementation of foreign ministry-level consultation, the promotion of defence cooperation, and humanitarian assistance. The two governments confirmed that the bilateral relationship would be raised to a 'strategic partnership.' Prime Minister Shinzo Abe welcomed the posting for the first time of a military officer at the Saudi embassy in Tokyo to encourage defence cooperation. On March 14, King Salman was invited to the Imperial Residence for a luncheon with the Emperor. The Imperial Household Agency announced that it considered it as an exceptional occasion in the relations between the Saudi royal and the Japanese imperial houses.

On the evening of March 14, the second Saudi-Japan Vision 2030 Joint Group ministerial meeting and the Saudi–Japan Vision 2030 Business Forum were held in Tokyo. During the business forum, 20 memoranda of understanding between Saudi and Japanese companies and agencies were concluded. Concomitantly, in the adjacent room, King Salman met ten selected Japanese company executives and took the occasion to reiterate his encouragement for business engagement in Saudi Arabia. Later, the chairman of JCCME, Hiroaki Nakanishi, escorted King Salman to the Business Forum, where he received welcomes from the audience.⁵⁴⁷ According to a Saudi government officer, the King's decision to

⁵⁴⁷ The author was fully engaged in the preparatory works as a member of the hosting organizer (JCCME and JETRO) of the business forum.

make an appearance in this occasion was an exception in the usual Saudi protocol and from a security point of view. King Salman's eagerness to have greetings with Japanese representatives illustrates his salient expectations from the Saudi–Japan Vision 2030.⁵⁴⁸

At the end of his stay in Japan, King Salman's next destination was China, which has also been trying to develop further business relations with Saudi Arabia.



Hiroaki Nakanishi, Chairman of JCCME and a chairman of Hitachi, Ltd., is granted an audience with King Salman on the occasion of the Saudi-Japan Vision 2030 Business Forum, in Tokyo (March 2017). From right to left: Minister of Finance Ibrahim al-Assaf, Minister of Economy and Planning 'Adel Fakieh, and Minister of Health Tawfiq Rabiah.

⁵⁴⁸ Author's interview with a Saudi officer at the Royal Protocol (March 2017).



King Salman meets Japanese Minister of Economy Trade and Industry Hiroshige Seko and Japanese companies' executives on the occasion of the Saudi-Japan Vision 2030 Business Forum, in Tokyo (March 2017).

Source: JCCME Archives

4.5.3 The Saudi-Japan Vision 2030: From an oil supply relationship to a strategic partnership

The purpose of King Salman's visit to Japan was not simply to deepen friendship between the two countries, but the aim was also to agree on concrete steps and measure to ensure Japan's cooperation in the implementation of the Saudi Vision 2030. For the Saudi leadership, the Saudi Vision 2030 is no longer limited to economic reform issues, but includes a strong component of diplomacy – as evidenced during Prince Muhammad bin Salman's visit to Tokyo in September 2016 while he was still Deputy Crown Prince. In order to increase national income without fully relying on oil exports, it has been considered as essential to diversify industries as well as build and strengthen the country's human resources. Therefore, the Saudi government emphasized three themes in the Saudi Vision 2030: a '*vibrant society*,' a '*thriving economy*' and an '*ambitious*

nation.' Then, in order to achieve each of them, the government has outlined tangible targets such as the promotion of tourism and culture, the encouragement of women's active participation into the labour market and the improvement of public services.

A Saudi–Japan Vision 2030 Joint Group was created in September 2016, but it is only during King Salman's visit to Japan in March 2017 that both leaders officially announced the Saudi–Japan Vision 2030. The Saudi–Japan Vision 2030 Joint Group comprises of a ministerial level meeting and an administrative level working group. Initially, the working group discussions were held in six different fields: 'Enablers', 'Trade and Investment', 'Investment and Finance', 'Energy and Industry', 'SMEs and Capacity Building', and 'Culture, Sports and Education'.⁵⁴⁹ Since then, intensive communications, visits and joint activities between the two governments' subgroup chairpersons and project managers have taken place.

Both governments have considered that economic synergy effects could be found between the objectives of the Saudi Vision 2030 to diversify the economic structure and to promote job creation in Saudi Arabia with the Japanese growth strategy, Abenomics, which has aimed at fostering GDP growth at home but which had been bogged down.⁵⁵⁰ It has been conceived as a response to a paradigm shift in the existing macro-economic development models for both countries, and as such, as a reciprocal vision to develop a strategic partnership which would serve economic prosperity by creating a synergy of the two strategies, namely Saudi Vision 2030 and Abenomics. The bilateral initiative of

⁵⁴⁹ Ministry of Economy, Trade and Industry, 'Saudi-Japan Vision 2030 Formulated' Available at: http://www.meti.go.jp/english/press/2017/0313_002.html (accessed on January 19, 2019).

⁵⁵⁰ Funakoshi, Minami, 'Japan to miss FY2020 GDP target of 600 trillion yen, retreats further from goal', *Reuters*, July 26, 2016.

the Saudi–Japan Vision 2030, which was formulated in October 2016, represents advanced, or matured relations in their cooperation. This initiative is a response to a paradigm shift of the existing macro-economic development models for both countries.

The Japanese government's cooperation in the Saudi–Japan Vision 2030 was welcomed by the Saudi government as it expressed the government's intention to participate indirectly, but comprehensively, in Saudi Arabia's economic reform. This collaboration literally as well as substantially stands for new relations in the post-2015 period. The prompt response of the Japanese government to the Deputy Crown Prince's visit in September 2016, in the form of the proposal for a framework of cooperation (Saudi-Japan Vision 2030), has to be evaluated within the context of the usual traditions and conventions of Japan's Middle East diplomacy. The Japanese government's view is that there is no option for the energy-scarce Japan, which is importing approximately 85% of its domestic oil from the Middle East,⁵⁵¹ other than cooperating with the new initiative of reform in Saudi Arabia. According to the Japanese government, the Saudi Vision 2030 contained new dimensions which had not been seen in previous Saudi economic reform initiatives. The Japanese Ministry of Economy, Trade and Industry, which is in charge, along with the Ministry of Foreign Affairs, of the Saudi-Japan Vision 2030 framework for the Japanese side, was keen on securing reciprocal business opportunities and a stable energy supply. METI's target was to export a Japanese infrastructure and petrochemical industry package in consideration of a

⁵⁵¹ 'Japan still dependant on fossil fuels and Middle East', *Nippon.com* (October 29, 2018). Available at: <https://www.nippon.com/en/features/h00318/japan-still-dependent-on-fossil-fuels-and-middle-east.html> (accessed on January 20, 2019).

foreseeable shrinking of the domestic market in these areas. The Japanese government's idea is that it will be able to support the Saudi Arabian transformation and development by putting Japanese expertise in industrial development and technology at the Saudi disposal. Meanwhile, the Japanese government is also expecting to benefit from the Saudi Vision 2030's massive public investment by developing new business market in Saudi Arabia thanks to new Japanese economic growth initiatives, such as:

- * *Society 5.0*, which ambitions to use technological innovations for economic development and the resolution of social issues;
- * *Connected Industries*, advocated by the Japanese Ministry of Economy, Trade and Industry, connecting Internet of Things (IoT) and artificial intelligence with manufacturing technology; and
- * *Cool Japan*, which is a branding strategy by the Japanese Ministry of Economy, Trade and Industry, encouraging Japanese software values.

Four main features can of the Saudi-Japan Vision 2030 can be highlighted: a comprehensive approach, a full backup of the Japanese economic federation, the support for human resource development in Saudi Arabia, and business promotion measures.

The 'comprehensive approach' refers to the ambition to promote public-private cooperation on the Japanese side. In the Vision, it is expected that the Japanese government cooperates on 54 projects within nine different fields, including industry, energy, SMEs, entertainment and medical and healthcare. In these projects, 44 ministries and agencies from both Japan and Saudi Arabia are involved.

On the other hand, 'a full backup of the Japanese economic federation' meant

the conclusion of 36 memoranda of understanding between Japanese and Saudi companies. In the Saudi–Japan Vision 2030, not only the governmental agencies but also private enterprises actively participate in joint projects, as the companies in both countries concluded MOUs and started business projects. At the occasion of the Saudi–Japan Vision 2030 Business Forum held in Riyadh in January 2018 aimed at promoting business, more than 170 Japanese business actors from 67 private companies as well as approximately 150 participants from Saudi Arabia attended.⁵⁵²

The ‘Support for human resource development’ initiative has the ambition to create more than 10,000 jobs through various training programs and the establishment of vocational institutions. Both governments have been putting a special effort on ‘human resource development’, as it is recognized that training Saudi nationals is a key priority. The Japanese government has been supporting human resource development by providing the Saudi governmental institutes with technical training programs and by establishing vocational training institutes such as automobile repairs and electronics items and home appliances repair and maintenance – as described in Chapter 3. In the future, the Japanese government will provide medical professionals and game/animation creators with specialized training programs in Japan.

Finally, ‘business promotion measures’ involved an improvement of the business environment and development of a regional specialized economic zone. In order to promote bilateral business, both governments streamlined business

⁵⁵² On January 14, 2018, the author chaired the subcommittee meeting on Entertainment in the Saudi-Japan Vision 2030 Business Forum in Riyadh which attracted approximately 50 participants. Other subcommittee meetings focused on energy, manufacturing, petrochemicals, healthcare and food/agriculture.

systems and structures. The Japanese government opened in January 2018 a Saudi–Japan Vision office in Riyadh to support the implementation and development of cooperative projects. At the same time, in order to promote Japanese firms' setting up in Saudi Arabia, the Japanese government has been encouraging the development of an 'Enabler Showcase Zone (ESZ)' initiative which introduces exceptional business promotion measures (Enabler) in industrial areas and special economic zones, such as King Abdullah Economic City on the Red Sea.

One and a half year after the announcement of the Saudi–Japan Vision 2030, cooperative projects in nine business sectors, including agriculture and food security, entertainment and media, healthcare and medicals, quality infrastructure, investment and finance, energy, competitive industry, SMEs and capacity-building, culture, sports and education, have shown some promising development. For example, the New Energy and Industrial Technology Development Organization (NEDO) in Japan and the Saline Water Conversion Corporation (SWCC) in Saudi Arabia have conducted a demonstration project on the actual scale of the energy saving seawater desalination system (Mega-ton Demonstration Project) which was started in Dammam in 2018.

In addition, Japan Oil, Gas and Metals National Corporation (JOGMEC) and Saudi Aramco have undertaken the joint stockpiling project, increasing the storing capacity of oil in Okinawa from 1 million kilo litres (6.3 million barrels) to 1.3 million kilo litres (8.2 million barrels). The contract was extended for 3 years and has been presented as one of the symbolic achievements of the cooperation between the two countries.

Moreover, several workshops on energy efficiency in the fields of automobiles

and home appliance were held and have contributed to the promotion of capacity-building in those sectors in Saudi Arabia. In addition, joint technical efforts by private enterprises, such as the implementation of a state-of-the-art energy-saving technology training programme and the introduction of electric vehicles through cooperation between a Japanese power company and a Saudi automobile manufacturer, have also been actively carried out. Other areas of collaboration include, among others, the development of human resources in the nuclear energy sector; the setting up of a partnership to help develop the 'Fourth Industrial Revolution' in Saudi Arabia; cooperation in the healthcare sector, in urban development and in housing construction, in trade promotion policy, in tourism and national heritage (as part of the 'Roads of Arabia' Exhibition held in 2019), and in education.

It is not an exaggeration to conclude that the realization of the Saudi-Japan Vision 2030 is a logical outcome of more than 60 years of increasingly sustained diplomatic relations between the two countries. However, it should be recognized that the realization of its objectives will take more time and is like to face more obstacles than expected and acknowledged. Although there is no need to be overly pessimistic of the future of the Saudi-Japan Vision 2030, it is also risky to be over-confident in the realization of the projects.

In theory, the Saudi–Japan Vision 2030 seemed beneficial to Japanese companies, who had been less competitive than other Asian companies (in particular Chinese, South Korean and Malaysian ones) in international large-scale EPC (Engineering, Procurement and Construction) tenders in infrastructure businesses on the Saudi market. However, this did not prove as successful as anticipated. Japanese companies may have been expecting unrealistic support

from the Japanese government. Both governments prefer to hold bilateral events that are widely taken up in the media, such as ceremonial forums and seminars, and to present them as if they are intermediate goals of the Saudi-Japan Vision 2030. In practice, both governments may be satisfied with the conclusion of several memoranda of understanding or of cooperation in lieu of political successes. In their business calculation, private companies however usually do not enthusiastically participate in the governmental events but do expect support from the government, which mean that governments and companies have to find compromises.⁵⁵³

Due to divergence of interests between Japan and Saudi Arabia, plans such as ministerial level meetings have often been delayed. For example, Prime Minister Abe's visit to Saudi Arabia, which was scheduled in July 2018, was postponed due to the torrential rain in western Japan. The meeting remained postponed for one year despite several re-adjustments of meeting dates. In addition, due to the frequent changes in Saudi secretariat and personnel in charge of the Vision since 2015, the organizational response from the Saudi side has been insufficient, causing the Japanese secretariat to explain again the process of bilateral discussions and negotiations from scratch.

As a result, few joint venture businesses between Japanese and Saudi companies have been concluded while investments by Japanese companies in Saudi Arabia after 2015 have not reached the level expected. Not only Japanese companies did not prove successful in winning contracts in their competition with other companies, but they have also put the blame on institutional constraints in

⁵⁵³ Author's interviews with Japanese private companies' executives in January 2018 in Riyadh.

doing business in Saudi Arabia, especially the need to adhere to the Saudization regulations. In order indeed to combat unemployment in Saudi Arabia, and in return for receiving financial Saudi government incentives and support, private companies are required to employ a certain number of Saudi nationals⁵⁵⁴ and to train them at their own cost. According to a 2018 survey undertaken by JETRO, approximately 70% of Japanese companies explained difficulties in conducting business in Saudi Arabia by the obstacles faced in soaring human resources cost and in recruiting labour forces.⁵⁵⁵

It may also happen that mutual misunderstanding takes place. For example, the Saudi side has been insisting that it does not understand why Japanese firms are not investing in the housing sector in Saudi Arabia where demand is high. While regretting that the Saudi government does not offer enough incentives, Japanese companies explain their reluctance to invest in the sector by miscellaneous factors such as what is perceived as inadequate technical construction methods and building materials, unprofitable price range and lack of workers' skills.

In addition, another risk mentioned by Japanese employers in relation to conducting business in Saudi Arabia is the decline in oil revenue. The plummeting of crude oil prices between 2015 and 2017 and the direct and indirect⁵⁵⁶

⁵⁵⁴ Ernst & Young, 'Saudi Arabia revives Nitaqat system and introduces mandatory Saifi program as part of its Saudization drive' (August 2017). Available at: <https://www.ey.com/gl/en/services/people-advisory-services/hc-alert-saudi-arabia-revises-nitaqat-system-and-introduces-mandatory-saifi-program-as-part-of-its-saudization-drive> (accessed on January 17, 2019).

⁵⁵⁵ Japan External Trade Organization (JETRO), '2018 Chuuto shin-shutsu nikkei kigyo Jittai chosa no kekka (Results of activities by Japanese companies in the Middle East JETRO 2018)' (January 2019). Available at: <https://www.jetro.go.jp/world/reports/2019/01/4733b60a2ae723ec.html> (accessed on January 31, 2019).

⁵⁵⁶ 'Saudi soldiers get Yemen war bonus from king', *Middle East Eye*, August 15, 2016

expenses of military operations in Yemen have had a tangible impact on the Saudi economic trend, leading to delays in payment to the local and international companies undertaking governmental projects and, in turn, resulting in growing anxieties and concerns from economic actors.

While Japanese diplomacy towards the Middle East has historically focussed on economy, and has been aimed at securing a steady supply of petroleum, in particular from the Gulf oil-producing countries, the Saudi-Japan Vision 2030 confirms the trends of more exhaustive multi-layered bilateral agreements initiated at the end of the 1990s, with the 'Comprehensive Partnership toward the Twenty-First Century' (signed in 1997), and pursued with the 2006 and 2013 joint statements, entitled respectively 'Towards the building of strategic and multi-layered partnership between Japan and the Kingdom of Saudi Arabia' and 'Strengthening of the Comprehensive Partnership between Japan and Saudi Arabia.' Although it is still early to evaluate the impact of the Saudi–Japan Vision 2030 and what it exactly means for the mid- to long-term economy-based bilateral relations, the consolidation of regular meetings at ministerial and business and the expansion of personnel exchanges confirm the construction of the relationship into a multi-layered one.

However, this evolution of Japan's diplomacy towards Saudi Arabia is likely to raise key questions regarding Japan's historically neutral position regarding Middle East politics. While Japan strengthens its ties with Saudi Arabia, it is in the process of doing the same with Iran, as illustrated by the establishment of the 'Japan-Iran Cooperation Council' in 2016 and Prime Ministers' mutual visits in 2014 and 2015. Similarly, Japan also concluded the 'Agreement between Japan and the State of Israel for the Liberalization, Promotion and Protection of

Investment' in February 2017, while establishing an economic partnership of Japan-Israel Innovation Networks (JIIN) 2.0 in January 2019.

4.5.4 Japan's response to the murder of Jamal Khashoggi in 2018

The Japanese government avoided any official announcement regarding the murder of Saudi journalist Jamal Khashoggi in Istanbul in October 2018. Although Japanese domestic media was critical of the Saudi government, the Japanese government was concerned about the potential negative impact on regional political stability accompanying Saudi Crown Prince Muhammad bin Salman's fall of influence as well as the impact of an official statement which would involve direct economic damages on Saudi-Japan bilateral relations. The Japanese government tried to persevere with what is presented as its policy of non-interference in other countries' domestic affairs.

In these circumstances, Japanese officials in Saudi Arabia obliquely requested Japanese companies to continue their current business in Saudi Arabia, without taking into account domestic and foreign media coverage on the issue.⁵⁵⁷ Officials also indicated that the Japanese government would not fall in line with the tone of other governments who were critically seeking the Saudi government to offer clarification regarding the event.⁵⁵⁸

The third ministerial Saudi – Japan Vision 2030 joint group meeting, scheduled on November 27, 2018 in Tokyo and to be attended by three Saudi ministers (Economy and Planning; Energy, Industry and Minerals; and Commerce and

⁵⁵⁷ Classified information from a governmental agency in Riyadh on October 17, 2018

⁵⁵⁸ *Ibid.*

Investment) and two Japanese ministers (Economy, Trade and Industry; and Foreign Affairs), was postponed – officially due to the participation of the Saudi Minister of Economy and Planning to the G20 meeting in Buenos Aires, although the schedule of this event had been known for a long time.

Despite the postponement of this meeting, the 17th Saudi-Japan Business Council, which was focusing on business discussions between private companies, took place as scheduled on November 26, 2018 in Tokyo. Additionally, a seminar on investment opportunities in Saudi Arabia was also organized by the Japan Cooperation Centre for the Middle East on November 27, 2018.⁵⁵⁹ More than 300 people participated in the two-day event in Tokyo. As the international coverage on the journalist's killing was at its peak, the Royal Embassy of Saudi Arabia in Japan expressed unprecedented concern about the critical coverage of the event by the Japanese media and was reported it in detail to Saudi Arabia.⁵⁶⁰ The fact that the two-day event was held during such unfavourable times raised the interests of the Saudi participants, in particular the embassy officials who welcomed it. The Saudi embassy staff tried to encourage Japanese media to participate in the events and cover the bilateral business events in Tokyo to ease the Saudi negative image.⁵⁶¹ However, Japanese organizers decided to withhold the invitation to the Japanese press in order to avoid a 'political use of these events.' The Saudi embassy invited all speakers to a dinner reception and expressed its gratitude for holding these events despite the context.

⁵⁵⁹ The author was a main staff in charge of organizing the two-day business event.

⁵⁶⁰ Author's interview with an officer at the embassy of Saudi Arabia in Japan (November 2018).

⁵⁶¹ 'Saudi – Japan business council discusses cooperation', *Arab News*, November 27, 2018 and '17th Saudi-Japanese Business Council Forum discuss furthering cooperation in economic, health, education sectors', *Saudi Press Agency*, November 26, 2018.

4.5.5 The National Industrial Development and Logistics Programme announced in January 2019

In April 2017, the Council of Economic and Development Affairs (CEDA), headed by the Saudi Crown Prince, officially announced 12 Vision Realization Programmes (VRPs) in order to practically implement the Saudi Vision 2030. As of January 2019, seven out of 12 programmes, including the National Transformation Programme (NTP), the Fiscal Balance Programme, the Public Investment Fund Programme, the Privatization Programme,⁵⁶² the Quality of Life Programme, the Financial Sector Development Programme, and the National Industrial Development and Logistics Programme (NIDL) have already been announced officially. The ceremony to announce the NIDL in January 2019 in Riyadh, attended by the Crown Prince, revealed ambitious new projects worth 450 billion US dollars in the sectors of mining (10 projects), industry (29 projects), logistics (7 projects) and energy (16 projects) within the next 10 years. It also announced the setting up of six support packages for these projects: 'Finance', 'Industrial Revolution 4.0', 'Export', 'Industrial Cities/Special Economic Zones', the 'Authorized Economic Operator', and the 'SENAEI Electronic Platform for Industrial Services'.

The NIDL falls in line with the Saudi Vision 2030, as it focusses on strategy for industrial planning and logistics. In particular, the NIDL puts a special effort

⁵⁶² Privatization Program (Delivery Plan 2020), A Saudi Vision 2030 Realization Program, National Center for Privatization (2017), pp.8-22 (accessed on July 9, 2018) available at <http://www.ncp.gov.sa/en/MediaCenter/News/Pages/برنامج-وثيقة-التخصيص.aspx>

on the development of domestic industries, domestic demand-led economy and export-substitution industrialization policy. Figures such as unemployment rate, GDP, foreign direct investments targets, and international competitiveness index are carefully excluded from the document. Moreover, it describes anti-dumping measures and strengthening of governmental procurement, which could be well interpreted as protectionist policies.⁵⁶³ In a meeting with Japan's governmental officers in Riyadh in February 2019, the governor of NIDLP asserted his programme is supposed to act as a facilitator as well as a coordinator among governmental institutions for the promotion of investment, especially in the fields of mining, industry and energy – which raises questions about the NIDLP's functional difference with the existing foreign investment promoter, Saudi Arabia General Investment Authority (SAGIA).⁵⁶⁴ Although the cooperation with Japanese companies are not mentioned in the document, incentives for investing in sectors considered as priorities by the Saudi-Japan Vision 2030 are reflected in the NIDLP and could potentially favour Japanese companies' investment in the Kingdom. For instance, the potential establishment of Special Economic Zones with tax incentives and Saudization exemption, the introduction of incentives for manufacturers using local components and of utility-charge incentives (electricity and water) for domestic manufacturers could definitely benefit Japanese businesses in the future. Actually, the Saudi government is trying to formulate special incentives for localization, or manufacturing of peculiar products, by legalizing an assurance of governmental purchases for Japanese companies.

⁵⁶³ National Industrial Development and Logistics Program (NIDLP), *Saudi Vision 2030* website, February 2019 (Accessed on February 12, 2019) available at <https://vision2030.gov.sa/en/NIDLP>

⁵⁶⁴ Author's interview with a Saudi governmental officer in Riyadh (February 2019).

4.6 Chapter conclusion

Chapter 4 has discussed Saudi-Japanese relations between 2013 and 2018. During this period, these relations have experienced further consolidation through Abe-Salman mutual visits. The fourth phase of bilateral Saudi-Japanese relations under the Abe administration can be distinguished from the other phases by:

- * the increased significance of diplomacy;
- * the intensification of creation of joint-venture businesses, encouraging value-added industries in Saudi Arabia;
- * the acceleration of the cooperation on energy-saving technology, which is essential to the sustainable development of the Saudi economy amid the prolonged oil price slump; and
- * the development of a basic business framework in the defence and security industry.

The post-2015 period indicated accelerated bilateral relations, represented by the Saudi-Japan Vision 2030 agreement. In particular, the Japanese government and companies have shown keen interest in the Saudi reforms related to the rise of electricity tariffs, water tariffs and gasoline charges as well as the introduction of value-added taxes, since the latter could provide new business opportunities for them. This collaboration has been strongly encouraged by the Crown Prince and King Salman who visited Japan in 2016 and 2017, respectively. This comprehensive framework of cooperation represents the core of economy-anchored relations and, at the same time, ambitions to bring a possibility of consolidating bilateral relations into a strategic partnership. The Saudi-Japan

Vision 2030 also has the potential of extending reciprocal business opportunities, however, the realization of its goals is likely to face obstacles due to the difference of approach in how to conduct business leading to miscommunications between the two governments as well as companies.

From the viewpoint of Middle East countries, especially Saudi Arabia, Japan is regarded as one of the prime countries in East Asia due to its significant political position in the Asia-Pacific region which has become the most strategic world's region from a political economy perspective. True, energy relations still represent a critical component of bilateral relations. However, looking back at the history of Saudi-Japanese bilateral relations, both governments consider that it is time to move beyond the current economic-oriented framework to a higher level of strategic reciprocal relations. On the other hand, the Japanese government is in dire need of a long-term sustained relation of trust with the Gulf oil-producing countries, particularly with the pivotal countries of Saudi Arabia, United Arab Emirates, Kuwait and Qatar in order to ensure uninterrupted energy supply. The oil crisis of the 1970s represented an economic threat to Japan for decades, which is still very vivid in Japanese leaders' minds, and the latter view Gulf's political stability as crucial for economic growth in Japan.

Finally, from the political point of view of relations with the United States, Japan is regarded as a pivotal ally in the Asia Pacific region, which is comparable to the political position of Saudi Arabia in the Gulf region. The establishment of a strategic security collaboration framework on the Gulf sea-lane between the United States, Saudi Arabia and Japan represents a critical design of coordination, which aims to be beneficial to the three parties. For the United States, the scheme combining partnerships with both Saudi Arabia in the Middle

East and Japan in Asia Pacific can be considered a desirable trilateral formation.

In principle, the Saudi economy's next source of growth is expected to be based on diversified energy choices that includes hydrocarbons, nuclear,⁵⁶⁵ and renewables. The Saudi leadership considers this process of diversification as essential for its sustainable development. In relation to the three energy choices above, as well as clean energy technology and water resource development, Japan ambitions to play an important role – except regarding nuclear energy development. In addition, Saudi Arabia further offers numerous investment opportunities for Japan due to expansion in key areas such as the transport sector, information technology and communication, and infrastructure. In this context, as the Saudi-Japan Vision 2030 covers these sectors of collaboration, the success or failure of the Saudi-Japan Vision 2030 will significantly impact the direction of bilateral relations in the long term.

⁵⁶⁵ Roscoe, Andrew, 'Saudi Arabia's nuclear programme – The Kingdom signalled its nuclear ambitions in 2007 and aims to generate 17.9GW by 2032', *MEED*, August 7, 2014 and Rasooldeen, MD. 'KSA, China sign nuclear energy cooperation deal', *Arab News*, August 10, 2014.

Chapter 5: Conclusion

This dissertation provides an analysis of how the Saudi-Japanese bilateral 'multi-layered' relationship has developed since the establishment of diplomatic relations in 1955. During the six decades, four distinctive phases of relations can be observed; (1) Japan's first oil development and the 1973 oil crisis: 1955-1975, (2) Agreement on economic and technical cooperation: 1975-1990, (3) Enhancement of multi-layered reciprocal relations: 1990-2013, and (4) Japan's techno-economic diplomacy on energy and security under the second Abe administration: 2013-2018.

These six decades have been divided into four phases in order to take into account the key turning points in the bilateral relations. The 1975 economic technical agreement was particularly significant for the Japanese government, which fully realized the absolute necessity of securing energy to ensure sustainable development following the 1973 oil crisis. In the 1990s, due to the fluctuation of oil prices, the Saudi government was in definite need of foreign investment and know-how in order to create a socially-balanced nation and to diversify its oil-anchored economic structure, for instance through the acceleration of privatization of state-owned companies. Under the impulsion of the second Abe administration, the years between 2013 and 2015 marked a drastic consolidation of bilateral relations allowing new cooperation in the fields of energy-saving technology and defence. This was confirmed in 2015, with the appointment of King Salman's son, Mohammad bin Salman, to the position of Minister of Defence and chair of the Council for Economic and Development Affairs, and his announcement, a year later, of the Vision 2030 initiative, which

lead to the issuance of the Saudi-Japan Vision 2030 initiative in 2017.

The 1973 oil crisis had a major economic impact not only on Japan, which relied on oil imports for its economic development, but also on most Asian countries. This was a critical blow to the Japanese economy and triggered the establishment of a multi-layered relationship with Saudi Arabia. It underlined the challenges facing oil diplomacy and exposed the fragility of Japan's economic foundation. The Japanese government's late response to the crisis can be explained by the division of the Cabinet into two groups, causing a delay in decision-making; the first group, along the line defended by the Ministry of Foreign Affairs, insisted on maintaining a Middle East foreign policy conforming to the principal logic of the Japan-United States relations, while the other group, led by the MITI, pushed for a pro-Arab energy security policy and the downgrading of relations with Israel in order to secure the oil supply.

As a result of the mutual need for an official bilateral cooperation scheme, the 'Agreement on Economic and Technical Cooperation between the Government of Japan and the Government of the Kingdom of Saudi Arabia' was signed on March 1, 1975. The goal of the agreement was to establish an intergovernmental platform to promote cooperation in economic and technical fields, excluding security, and to provide continuous assistance for private companies' activities with the support of semi-governmental organizations. In particular, it encouraged the establishment of Japanese joint venture companies and investment in Saudi petrochemical and other fundamental industries. Ten such companies, mostly in manufacturing industries, were established between 1975 and 1990 as a result of the agreement.

During the 1990s, no large-scale joint venture project was implemented due to

regional instability in the Middle East and low oil prices. However, an economic framework capable of shaping advanced economic relations was created through two different official agreements: the Comprehensive Partnership towards the 21st Century (1997) and the Japan-Saudi Arabia Joint Agenda (1998). As a result of these agreements, which paved the way for the Saudi-Japan Vision 2030 20 years later, more than 20 joint venture companies were established, as well as three Japanese-style vocational and training institutes for car maintenance, plastic fabrication, and electronics and home appliances in Jeddah and Riyadh. During the period, the Japan International Cooperation Agency (JICA) office in Riyadh was also established, as well as cultural and sports exchanges were realized.

During Crown Prince Sultan's visit to Tokyo in 2006, the 'Joint Statement towards the Building of Strategic and Multi-layered Partnership between Japan and the Kingdom of Saudi Arabia' was signed. During the 1990s and 2000s, despite fluctuating oil prices, the Saudi government advocated for privatization and liberalization of state-owned companies, allegedly in order to diversify its domestic industry and enable private companies to maximize their potential business efficiency and capabilities. Amid the changing political and economic situation in the region, the Saudi government was facing a need for comprehensive reform in its domestic politics, economy, and society, as a series of petitions signed by Saudi intellectuals and religious leaders were issued to the government in the early 1990s. The House of Sa'ud needed cooperation from the international community, particularly regarding the know-how for diversifying its oil-dependent industry, stabilizing the economic structure, creating job opportunities for youth, in order to sustain its legitimacy. Such reform efforts

provided avenues for energy-scarce Japan to begin exploring business expansion opportunities in the energy-rich Middle Eastern market in order to compensate for its shrinking domestic economic environment.

The analysis of the Japanese government's support for Saudi human resource development since the 1990s presented in this dissertation provides a new perspective and adds to previous research. This provides a case study of how the Japanese government, without a military cooperation relationship, has tried to assist Saudi Arabia in solving its social and economic challenges. Despite Riyadh launching its Saudization campaign in the 2000s, which aimed to substitute foreign workers with Saudi nationals, the employment of foreign workers by Saudi companies continued in many sectors of the labour market. The Saudi government set conditions for its international business partners, including Japan, to develop Saudi national's human resource capacity when they participate in infrastructure tenders in Saudi Arabia. The Japanese experience in this field was viewed as useful in supporting Saudi human resource development and, as a result, the Japanese government established three vocational and training institutes between 2002 and 2009 in cooperation with the Saudi Technical Vocational Training Corporation – as detailed in chapter Three.

In Chapter Four, this dissertation provides a detailed analysis of the Japanese government's new diplomatic approach under the second Abe administration, focusing on maximizing the country's advanced technology transfer regarding energy saving. In addition, the Japanese government has been diversifying its cooperation offer by expanding it to the field of defence and security. Reciprocal official visits have continued and intensified, helping to shape these new bilateral relations in energy-saving technology and defence/security cooperation. In

particular, following the passing of security-related bills in 2015, Japan's Self-Defence Forces were enabled to play a more active role abroad. The outlook for Japanese-Saudi joint venture businesses in the 2010s has improved further, especially in relation to engineering work for the maintenance of technical services, for life extension and effective utilization of existing facilities and multi-industrial insurance services. As of 2015, more than 60 joint venture companies had been established since the governmental economic cooperation agreement came into force in 1975, despite occasional divergence of business interests.

During Crown Prince Salman's visit to Japan in 2014, Prime Minister Abe and Salman expressed their commitment to the Comprehensive Partnership in all fields within the framework of the Joint Statement issued on April 30, 2013, and to continue discussion and cooperation at different levels. Although a detailed description of defence cooperation could not be specified, the description of cooperation in political and security affairs, defence exchanges, energy cooperation, industrial cooperation, infrastructure project cooperation, human resource development cooperation, culture-educational cooperation, as outlined in the 2013 Joint Statement, showed that the bilateral relations had entered into a fourth phase. The latter distinguishes itself through the sustained establishment of new joint ventures, cooperation on energy-saving technology in order to help the Saudi economy cope with the prolonged oil slump and move towards a post-oil model, and the development of a business framework in the defence and security industry.

Finally, this dissertation explains why Riyadh concluded the Vision 2030 agreement with Tokyo – and not with other Asian countries. This comprehensive framework of cooperation was indeed strongly encouraged by both Crown Prince

Muhammad bin Salman and King Salman who visited Japan in 2016 and 2017, respectively, and may well have encouraged the consolidation of the bilateral relations into a strategic partnership.

This deepening of the relationship since the accession of King Salman to the Saudi throne in 2015 was recently illustrated by the announcement of the National Industry Development and Logistics Programme (NIDLP) in January 2019. It revealed ambitious new projects worth 450 billion US dollars in the sectors of mining, industry, logistics, and energy for the following ten years, which fit within the priorities of the 'Vision 2030' promoted by the two Saudi leaders. In particular, the NIDLP focusses on development of domestic industries, domestic demand-led economy, and export-substitution industrialization policy. Incentives for Japanese companies to invest in these sectors are reflected in the NIDLP. The establishment of special economic zones with tax incentives and Saudization exemption, the introduction of incentives for manufacturers using local components and of utility-charge incentives, among others, are likely to help bolster Japanese companies' competitiveness. In addition, the Saudi government further offers numerous investment opportunities for Japanese companies due to expansion in key areas such as the transport sector, information technology and communication, and infrastructure.

This dissertation arguably represents a turning point compared to existing research in the field – especially in Japan. As explained in Chapter One, there have been extremely few comprehensive studies on bilateral economic relations between Japan and oil-producing Middle Eastern countries, including dealing with political, diplomatic and economic exchanges. The only research so far, by Shiratori, analyzed the Japanese government's response to the oil crisis in 1973

as part of its energy resource diplomacy after the Second World War, but did not investigate bilateral relations with a particular country of the region, as has been done in the present study.

One of the main findings of this dissertation is to highlight that, even if the development of bilateral relations between Japan and Saudi Arabia over the last 60 years has not been linear, it has been built on respective strengths, both parties pragmatically choosing to focus on their complementarity to meet the needs of the other side in order to increase the level of engagement and to mutually benefit from this relationship.

A key determinant of the bilateral relations has been Japan's vital need to secure oil supply from the Middle East, especially from Saudi Arabia, in order to sustain economic growth. On the other hand, the Saudi government has endeavoured to transform its industrial structure towards the manufacturing of value-added commodities, which has necessitated foreign technology and investment. Oil-producing countries, and Saudi Arabia in particular, have identified collaboration with Japan as a possibility to benefit from transfer of technologies and to acquire critical know-how in human resource development, especially through technical vocational training programmes but also through the establishment of joint venture companies, particularly in energy-saving technology. Conversely, the Japanese government has been intensifying its techno-economic diplomacy towards the Middle Eastern countries as the basis of a new foreign policy. Accordingly, Saudi-Japanese relations have not been one-sided, but have always been reciprocal. In this perspective, the Saudi-Japan Vision 2030, which was established as a bilateral system comprising cooperation regarding investment, technology transfer, and human resources development,

is the result of the 60 years of relations since 1955 which redefined multi-faceted bilateral relations. What is critical to note is that these bilateral relations were developed and expanded without military cooperation – a particularly unusual example in this region of the world.

Among the key factors that this research has identified to explain the path of Saudi-Japan relations during the last 60 years is the confidence and trust slowly built between the Saudi royals and the Japanese imperial family, which was initiated on the occasion of the visit to Japan of King Faisal in 1971 and which has been ongoing since. Japanese Crown Prince Naruhito attended funerals of Crown Prince Sultan (in 2011), of Naif (in 2012) and of King ‘Abd Allah (in 2015), while then Deputy Crown Prince Muhammad bin Salman had an audience with the Japanese Emperor in September 2016. Again, in June 2019, the Saudi Crown Prince visited Japan to attend to G20 meeting and met Japanese Emperor Naruhito. Indeed, by deepening exchanges with Japanese imperial family members, the Saudi royal family has been able to raise its international prestige, and, as such, has used these royal exchanges as a legitimacy tool at home. By highlighting how the Saudi royal – Japanese imperial relations contributed to the building of a relationship of trust between the two countries and thus played a decisive role in strengthening bilateral ties, this dissertation thus shows and confirms that personal relations between leaders deeply matter in diplomacy and foreign policy – even if these heads of state formally have no executive role (as it is the case for the Japanese imperial family).

Moreover this dissertation makes a distinct contribution to knowledge on the basis of original fieldwork. It relies on more than 50 personal interviews and on personal observation conducted during the author’s work assignments between

2011 and 2015. This provided the author with a unique opportunity to understand Saudi-Japanese bilateral relations *from below*, on a daily basis. In this perspective, this study shows that the macroeconomic, quantitative approach to studying relations between two countries remains insufficient. The qualitative investigation of concrete instances of exchanges and cooperation, as illustrated by the study of vocational training institutions established within the framework of the Saudization initiative, is critical to fully grasp the complexity and depth of bilateral cooperation. In addition to the wealth of this personal experience in Saudi Arabia and of Japanese policy-making, this study has benefited from Japanese Ministry of Foreign Affairs' diplomatic cables and documents which had never been thoroughly and comprehensively investigated before, and which have provided an invaluable resource for this research.

Moreover, this study has contributed to gain valuable insights into the decision-making process within the Japanese government in relation to foreign policy. Not only the dissertation contributes to give a better understanding of respective influence of the various governmental agencies and ministries involved in the making and implementation of Japanese foreign policy. It also emphasizes the role and influence of domestic factors and internal priorities on Japanese foreign policy, as illustrated by the impact of the disaster at Fukushima Dai-ichi nuclear power plant caused by an earthquake as well as the Abenomics-Saudi Vision 2030 initiative, which cannot be understood without taking into account Japan's post-2013 internal political context.

More generally, through the original empirical material presented and its critical findings, this dissertation represents a distinct contribution to the burgeoning literature on GCC-Asian relations. Indeed, while Niblock has observed that GCC-

Asia relations have an increasing impact on the global economy, the relevant literature remains surprisingly limited. While a comprehensive comparative approach of GCC-Asia bilateral relations is beyond the scope of this study, it contributes to show how Saudi-Japan relations have compared to Saudi Arabia's cooperation with other Asian countries, and thus suggests some ideas and avenues for future research. Saudi-Chinese diplomatic relations in particular were not established until 1990 and are still nascent, compared to the matured Saudi-Japan ones. Moreover, while China and Saudi Arabia have focused a large proportion of their exchanges on sales and purchases of military products, this has in the case of Japan and Saudi Arabia been limited to exchanges of military attachés. Last but not least, oil dependence of South Korea and China on the Middle East remains unchanged. Although the Chinese government has realized several large petrochemical joint ventures with Saudi Aramco, such projects in the private industrial sector between Riyadh and Beijing remain extremely limited compared to the achievements of Saudi-Japan cooperation. Only recently, discussions between Saudi Arabia and China have sought to create synergy between the Belt and Road Initiative and the Saudi Vision 2030. The similarity of this initiative with the Saudi-Japan Vision 2030 would be an interesting research topic for a future comparative study. South Korean or Chinese governments, whose oil-dependent economic structure is comparable to that of Japan, and GCC oil-producing countries' government officials (such as Qatar and UAE) that endeavour to reduce their dependence on oil-related industries, will be able to refer to the Saudi-Japanese economic development process and patterns (a package of economic cooperation including technology transfer plus human resource development), as outlined in this study.

Saudi-Japan Vision 2030 arguably represents a new approach in the existing bilateral relations, with the aim to achieve synergy effects, and this dissertation provides an analysis of these factors of reciprocity and complementarity. This joint Vision 2030 initiative is a response to a paradigm shift in the existing macro-economic development models for both countries. Firstly, the Saudi government's ambition is to move from a government-centric economic development model to a market-driven one, while Japanese policymakers have been trying to reverse the inward trend of economic protectionism towards an international business expansion model. Secondly, both governments have held complementary ambitions to capitalize on economic or trade disparities with neighbouring regions. Geographically, the Saudi government has been keen to leverage its comparatively strong position in the region and to capture unexplored business opportunities in Africa, while the Japanese business approach has, broadly speaking, so far been limited to markets in South East Asia. Thirdly, decision-makers in Tokyo have emphasised the development and promotion of Japanese expertise in service-based industries, such as tourism, healthcare, and entertainment, due to the priority given to these sectors in the Saudi Vision 2030.

Leaders in both countries have chosen to pursue this joint initiative because it meets development and economic objectives. For Saudi Arabia, the Japanese package of cooperation for investment, technology transfer, and human resource development is a political tool to revitalize its economy and local industries, while the Japanese government have identified synergy effects on their economic growth initiative, Abenomics.

Despite these complementary strategic priorities and goals, bilateral cooperation is not always a smooth road – as illustrated by the fact that the 3rd

ministerial meeting of the Saudi-Japan Vision 2030 has been delayed for more than two years since March 2017 – and there are a number of obstacles to be tackled by both countries in the long term. In particular, the Japanese side does not perceive its counterpart as stable and Saudi officials in charge of bilateral issues have changed several times without prior notice – which means that the new officials are not necessarily informed enough to continue discussions where their predecessors left off, leading to delays and difficulties in Tokyo, in particular regarding the long-awaited economic benefits of special incentives for Japanese companies. There is no question that the results of the implementation of Saudi-Japan Vision 2030 will influence the new direction taken by bilateral relations in the coming decades.

Appendix 1. Agreement on economic and technical cooperation between the government of Japan and the government of the Kingdom of Saudi Arabia in 1975

AGREEMENT ON ECONOMIC AND TECHNICAL COOPERATION BETWEEN THE GOVERNMENT OF JAPAN AND THE GOVERNMENT OF THE KINGDOM OF SAUDI ARABIA

The Government of Japan and the Government of the Kingdom of Saudi Arabia, being desirous of further developing and strengthening the friendly relations that exist between the two countries through promoting economic and technical cooperation between them, Have agreed upon as follows:

Article 1

The two governments will endeavor to promote economic and technical cooperation between the two countries in a spirit of complete mutual understanding.

Article 2

1) The two governments will cooperate in all economic development fields including the industrial, petroleum, petrochemical, mineral, agricultural, irrigation, fisheries, and medical projects by establishment of joint or mixed ventures or companies in such fields.

2) Technical cooperation in accordance with the Agreement include the following:

a) To provide technical experts so that their expertise can be utilized through work and advice.

b) To provide academic and training scholarships for educational, industrial and technical establishments and for various other sectors according to the need and

specialized areas.

c) To provide assistance in carrying out scientific, technical, and training research projects, particularly through the cooperation of the institutions and the organizations that are specialized in such fields, and the preparation of studies which aim at the realization of economic, social and technical progress.

d) To provide the necessary equipments, machines and materials for the achievement of the objectives of this Agreement.

3) Any other type of technical and economic cooperation which can be mutually agreed upon will be provided.

Article 3

The proper atmosphere will be prepared for the implementation of the objectives of this Agreement by providing the necessary services and facilities which include inter alia the following:

a) The necessary offices and local staff including the Saudi Arabian counterpart personnel to the Japanese experts will be provided.

b) Exemption of the necessary equipments, machines and materials from custom duties and other duties.

c) The experts, their families and the missions who are to be dispatched in accordance with Article 2 of this Agreement will be granted exemptions and benefits not less favourable than those granted to the experts and their families of a third country in the Kingdom of Saudi Arabia.

Article 4

The two governments will endeavour to encourage economic and technical cooperation between nationals (including juridical persons) of the two countries, in accordance with the laws and regulations in force in their respective countries,

and will lay emphasis on the establishment of joint or mixed ventures and companies in the various fields.

Article 5

The Government of the Kingdom of Saudi Arabia will encourage the investment of Japanese capital in the Kingdom of Saudi Arabia.

Article 6

In order to ensure the implementation of this Agreement in an effective manner, a joint committee comprising the representatives of the two governments will be formed. This Committee will meet, periodically or when necessary, for consultations and to agree upon the development projects and the measures that are necessary to implement and follow up the Agreement. The two governments will adopt the projects and measures agreed upon by the Committee.

Article 7

1) This Agreement will enter into force on the date of receipt by the Government of Japan of a Note from the Government of the Kingdom of Saudi Arabia stating that the necessary formalities for the entry into force of the Agreement have been completed.

2) This Agreement is valid for a period of five years, and will be automatically renewed for similar terms unless either party gives to the other party at least six months advance written notice of its intentions to terminate or amend the Agreement.

DONE in duplicate in the Japanese, Arabic and English languages. This first day of the third month in the fiftieth year of Showa, corresponding to the eighteenth day of Safar, 1395, and to the first day of March, one thousand nine hundred and seventy - five at Tokyo.

For the Government of Japan:

(Signed) Kiichi Miyazawa

For the Government of the Kingdom of Saudi Arabia:

(Signed) Hisham M. Nazer

Appendix 2. List of officials' exchanges between Japan and Saudi Arabia

Visit to Saudi Arabia from Japan	
Year	Name
1990	Foreign Minister Taro Nakayama
1990	Prime Minister Toshiki Kaifu
1992	International Trade and Industry Minister Kozo Watanabe
1994	Crown Prince and Princess
1995	Prime Minister Tomiichi Murayama
1997	Minister of Education Takashi Kosugi
1997	Prime Minister Ryutaro Hashimoto
1999	Minister of International Trade and Industry Mitsuo Horiuchi
1999	State Secretary for Foreign Affairs Nobutaka Machimura
1999	Minister of International Trade and Industry Kaoru Yosano
2000	Minister of International Trade and Industry Takashi Fukaya
2001	Foreign Minister Yohei Kono
2001	Former Foreign Minister Masahiko Koumura (Special Envoy for Prime Minister Junichiro Koizumi)
2001	Minister of Economy, Trade and Industry Takao Hiranuma
2003	Prime Minister Junichiro Koizumi
2005	Former Prime Minister Ryutaro Hashimoto
2005	Crown Prince and Former Prime Minister Ryutaro Hashimoto

Visit to Saudi Arabia from Japan

Year	Name
2006	Minister of Agriculture, Forestry and Fisheries Shoichi Nakagawa
2007	Prime Minister Shinzo Abe
2007	Minister of Economy, Trade and Industry Akira Amari
2008	Minister of Education, Culture, Sports, Science and Technology Kisaburo Tokai
2008	Special Envoy of Prime Minister Hiroshi Okuda
2008	Minister of Economy, Trade and Industry Akira Amari
2009	Former Prime Minister Shinzo Abe
2009	Former Prime Minister Yasuo Fukuda
2011	Minister of Economy, Trade and Industry Akihiro Ohata
2011	Minister of Economy, Trade and Industry Yukio Edano
2011	H.I.H. Crown Prince
2012	Minister for Foreign Affairs Koichiro Gamba
2012	H.I.H. Crown Prince
2013	Minister of Economy, Trade and Industry Toshimitsu Motegi
2013	Prime Minister Shinzo Abe
2014	Minister of Economy, Trade and Industry Toshimitsu Motegi
2015	H.I.H. Crown Prince
2015	Mr. Yasutoshi Nishimura, State Minister of Cabinet Office
2015	Mr. Masahiko Komura, Vice President of Liberal Democratic Party
2016	Ms. Miki Yamada, Vice Minister of Foreign Affairs

Visit to Saudi Arabia from Japan

Year	Name
2016	Mr. Hiroshige Seko, Minister of Economy, Trade and Industry, Mr. Kentaro Sonoura, State Minister of Foreign Affairs
2017	Mr. Taro Kono, Minister of Foreign Affairs
2018	Mr. Hiroshige Seko, Minister of Economy, Trade and Industry Mr. Taro Kono, Minister of Foreign Affairs
2019	Mr. Taro Kono, Minister of Foreign Affairs

Visit to Japan from Saudi Arabia

Year	Name
1990	Petroleum and Mineral Resources Minister and Planning Minister Hisham M. Nazer
1990	General Presidency of Youth Welfare President Prince Faisal Bin Fahd
1990	Prince Nawaf bin 'Abd al-'Aziz
1992	Commerce Minister Sulaiman 'Abd al-'Aziz al-Suleim
1992	Planning Minister Abdul-Wahhab Bin Abdul-Salam Attar
1993	Prince Turki Bin Faisal Bin 'Abd al-'Aziz
1994	Petroleum and Mineral Resources Minister and Planning Minister Hisham M. Nazer
1994	Industry and Electricity Minister 'Abd al-'Aziz 'Abd Allah al-Zamil
1996	Foreign Minister Prince Sa'ud Faisal
1997	Education Minister Muhammad bin Ahmad al-Rasheed
1997	Planning Minister 'Abd al-Wahhab bin 'Abd al-Salam 'Attar

Visit to Japan from Saudi Arabia

Year	Name
1998	H.R.H. Prince Salman the Governor of Riyadh Region
1998	H.R.H. Crown Prince 'Abd Allah
2002	Minister of National Economy and Planning al-Gosaibi
2003	Minister of National Economy and Planning al-Gosaibi
2003	Minister of Commerce and Industry Dr. Yamani
2004	Minister of Petroleum and Mineral Resources al-Na'imi
2005	Minister of Commerce and Industry Dr. Yamani
2006	H.R.H Crown Prince Sultan Bin 'Abd al-'Aziz al-Sa'ud
2007	Minister of Petroleum and Mineral Resources al-Na'imi
2007	Secretary-General of the National Security Council Prince Bandar bin Sultan
2007	'Ali al-Na'imi, Minister of Petroleum and Mineral Resources
2009	'Ali al-Na'imi, Minister of Petroleum and Mineral Resources
2010	Khalid bin Muhammad al-Gosaibi, Minister of Economy and Planning
2010	Khalid bin Muhammad al-Angari, Minister of Higher Education
2010	'Abd Allah bin 'Abd al-Rahman al-Husseini, Minister of Water and Electricity
2010	Ibrahim bin 'Abd al-'Aziz bin 'Abd Allah al-Assaf, Minister of Finance
2011	Nizar bin 'Ubaid Madani, Minister of State for Foreign Affairs
2012	Muhammad al-Jasser. Minister of Planning and Economy Tawfiq bin Fawzan al-Rabi'ah, Minister of Commerce

Visit to Japan from Saudi Arabia

Year	Name
2012	'Ali al-Na'imi, Minister of Petroleum and Mineral Resources
2012	Ibrahim bin 'Abd al-'Aziz bin 'Abd Allah al-Assaf, Minister of Finance
2012	Nizar bin 'Ubaid Madani, Minister of State for Foreign Affairs
2013	Prince Khaled bin Sultan bin 'Abd al-'Aziz Al Sa'ud, Deputy Minister of Defence
2014	Crown Prince Salman bin 'Abd al-'Aziz Al Sa'ud
2015	'Adil M. Fakeih, Minister of Economy and Planning, 'Abd al-Latif A. al-'Uthman, Governor and Chairman of the Board of Directors
2016	'Abd Allah Al al-Shaikh, President of Shura Council
2016	Prince Muhammad bin Salman bin 'Abd al-'Aziz Al Sa'ud
2017	Custodian of the Two Holy Mosques King Salman bin 'Abd al-'Aziz Al Sa'ud
2018	Khalid A. Al-Falih, Minister of Energy, Industry and Mineral Resources Prince Sultan bin Salman bin 'Abd al-'Aziz Al Sa'ud

Sources: Japan – Saudi Arabia Relations (Basic Data), Ministry of Foreign Affairs, Japan (June 12, 2015) available at http://www.mofa.go.jp/region/middle_e/saudi/data.html; History of the relations with Japan, Embassy of Japan in Saudi Arabia website (April, 2013) (accessed on February 12, 2016) available at <http://www.ksa.emb-japan.go.jp/j/political/government/diplomacy3.htm#kankei01>

Appendix 3. JICA's major cooperation with Saudi Arabia (1976-2012): Japanese expert(s)' dispatch to Saudi Arabia, Training in Japan, and Project implementation

(1) Summary of track record in the Kingdom of Saudi Arabia

Total cooperation from 1976 to 2012: more than 70 ministries and organizations.

Total amount of cooperation from JICA: 1,938 million SR

Training in Japan: 1,864 persons (159 million Saudi Riyals)

(Over 70 Ministries and Organizations)

Experts dispatched: 813 persons (355 million SR)

(26 Ministries and Organizations)

Development Survey: 1,118 persons (158 million SR)

(Energy, Water, Nature etc.)

Equipment provision: 117 million SR

Others: 12 million SR

Commercial Industry Investment: 1,140million SR

(RCJY SHARQ and AR-RAZI)

(2) Major cooperation on Saudi Arabia

1) Technical Vocational Training Corporation (GOTEVT): Riyadh Electronics

Institute preparation R&D

2) Ministry of Petroleum & Mineral Resources: Mapping technology

3) Ministry of Post, Telegraph & Telephones: Telecom & Post

4) Ministry of Public Works & Housing: Residence construction training

5) Industrial Development Research Centre: Total Quality Management

6) Saudi Railway: Railway control

- 7) Saudi Arabian Standard Organization: Electricity, Fibre industries
- 8) Ministry of Agriculture and Water: Reuse of waste water, statistics management
- 9) Ministry of Water and Electricity: Master plan for energy conservation
- 10) King Saud University: PC administration
- 11) Saline Water Conversion Corporation: Desalination technology
- 12) Ministry of Health: Cancer centre
- 13) Arab Security Studies Training Centre: Criminal prevention
- 14) Ministry of Planning: Science technology development plan, women's entrepreneurship training
- 15) Royal Committee: Beach cleaning programme
- 16) King Fahd University for Petroleum and Minerals: Air / Sea survey system
- 17) Saudi Wildlife Commission (NCWCD): Natural resource protection Juniper Trees and Forests
- 18) Ministry of Transport: Bridge engineering / transport
- 19) SCH/Saudi Arabia General Investment Authority: Industrial investment, SME promotion
- 20) Ministry of Education/Higher Education: Education seminar, PC education, Education for special needs, Science and Mathematics
- 21) Ministry of Petroleum and Mineral resources: Resource development training
- 22) Presidency for Meteorology & Environment/MEPA: Pollution control, monitoring Arabian Sea
- 23) Ministry of Municipality & Rural Affairs: Environmental policy, management, sewage utilization
- 24) Riyadh Water & Sewage Authority: Water leakage protection, water

distribution

25) Ministry of Commerce: Trade promotion programme

26) Ministry of Antiquities & Museums: Archaeological excavation

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According to the Japanese Information Disclosure Law, which came into effect in 2001, diplomatic cables are to be disclosed publicly upon the formal request. Therefore, these cables are recognised as being in the public domain. However, the retention period of these cables at the Ministry of Foreign Affairs was categorised as '5 years' from the date of dispatching (of the cables).

Some of the cables below were referred to in this dissertation, while some of them were used as references with precious information.

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in Saudi Arabia – classified story of one of the drafters of the Petition –', Ref.No.182, February 22, 2004.

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in Saudi Arabia - Articles on the 4th meeting of 'National Gathering for Dialog on Thoughts-', Ref.No.1303, December 12, 2004.

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Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'Situation in Saudi Arabia – A view of an intellectual (Shoura Council member) on regional assembly election and reform -', Ref.No.454, March 6, 2005.

Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'Internal reform in Saudi Arabia – An interview with an intellectual: Advisor to Kingdom Holding Co.-', Ref.No.611, March 29, 2005.

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Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'Domestic politics and foreign policy in Saudi Arabia – An interview with King Abdullah by American Broadcasting Company (ABC)-', Ref.No.1924, October 16, 2005.

Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'The 3rd Japanese Cultural Dialogue and Exchange mission to Saudi Arabia', Ref.No.1953, October 22, 2005.

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Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'Domestic politics in Saudi Arabia - the 5th National Dialog Forum 'Us and Others''-', Ref.No.2367, December 25, 2005.

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Embassy of Japan in Saudi Arabia to Ministry of Foreign Affairs (Tokyo), 'Social Economic situation in Saudi Arabia – King's view on external economy: A view of a financial expert close to the establishment -', Ref.No.376, February 26, 2006.

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b. Personal Interviews:

Japanese officials:

- * Interviews with three Japanese ambassadors to Saudi Arabia and Egypt:
 - (1) HE Mr. Shigeru Endo (Ambassador to Saudi Arabia between 2009 and 2012), February 2014 (Riyadh), December 2017 (Tokyo) and April 2018 (Tokyo).
 - (2) HE Mr. Yasuo Saito (Ambassador to Saudi Arabia between 2003 and 2006), November 2017 (Tokyo).
 - (3) HE Mr. Kunio Katakura (Ambassador to Egypt between 2000 and 2005), October 2016 (Tokyo).

- * Interview with officers at the Embassy of Japan in Saudi Arabia in Riyadh (December 2017) on issues of Saudi-Japan Vision 2030 and Saudization.

- * Interview with Japanese officers at Embassy of Japan in Saudi Arabia in Riyadh (September and November 2018) on issues of agenda of Sub-group meetings related to the ministerial meeting of Saudi-Japan Vision 2030 and political issues.

- * Interview with Japanese officers at the Ministry of Economy, Trade and Industry in Riyadh (January 2018) on issues of Saudi-Japan Vision 2030 and business seminar in Riyadh.

- * Interviews with Japan Cooperation Centre for the Middle East (JCCME) Task Force team staffs (Mr. Yoshitaka Nakamura, Managing Director and Mr. Yoshiyuki Suzuki, Deputy Managing Director) in Tokyo (December 2016) on Japanese companies' business activities and investment opportunities in Saudi Arabia.

- * Interview with General Manager of Japan External Trade Organization (JETRO) Riyadh office in February 2013 on local business activities of Japanese companies.

- * Interview with Managing Director of JETRO Riyadh office in January 2018 on issues of Saudi-Japan Vision 2030 and business trend in entertainment sector.

Saudi officials:

- * Interview with officers of the Ministry of Economy and Planning (MEP), Saudi Arabia in Riyadh (February 2017 and October 2018) on issues of Saudi-Japan Vision 2030.

- * Interview a Saudi officer at Royal Protocol in Tokyo (March 2017) on the occasion of the visit of King Salman to Japan.

Japanese companies' executives:

Interviews with Japanese companies' executives in Riyadh, Jeddah and Dammam on the issues of, among others, business situation in the manufacturing sector, Saudi human resource development and Saudization policies, and Saudi companies' business trends:

(1) In Riyadh:

- Alinma Tokio Marine Co., May 2015.
- Arabian Company and Sasakura for Water & Power (ACWA Power), February 2014.
- Hitachi, Ltd., Riyadh Branch, May 2013.
- Itochu Corporation, July 2014 and January 2018.
- Kintetsu World Express (Saudi Arabia) Ltd., January 2015.
- Marubeni Saudi Arabia, September 2015.
- Mitsubishi Corporation, March 2014.
- Mitsubishi Electric Saudi Arabia, September 2013.
- Mitsui & Co., November 2014.
- Mizuho Saudi Arabia Company, April 2013.
- NEC Saudi Arabia, Branch President, December 2013.
- Nikken Sekkei Riyadh Office, December 2014.
- Saudi ORIX Leasing, February 2013.
- Sumitomo Corporation, October 2015.
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(2) In Jeddah:

- AJIL Financial Services company, January 2014.
- Arabian Japanese Membrane Company (AJMC), September 2013.
- Denso Abdul Latif Jameel, February 2015.
- Fujitec Saudi Arabia, November 2013.
- Rabigh Arabian Water & Electricity Company (RAWEC), March 2015.
- Rabigh Petrochemical Logistics, July 2015.
- Rabigh Refining and Petrochemical (Petro Rabigh), April 2014.
- Sankyu Manar Saudi Arabia, December 2013.
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(3) In the Eastern Province:

- Azbil Saudi Arabia Co., February 2014.
- Chiyoda Petrostar, August 2013.
- Hitachi Saihati Engineering Services Co., Ltd., April 2013.
- Isuzu Motors Saudi Arabia Co. Ltd, January 2015.
- J-Power Systems Saudi Arabia Co., Ltd, May 2014.
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- JGC Arabia Ltd., General Manager, February 2013 and October 2018.
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- Sankyu-ARCC Saudi Co., June 2015.
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Japanese experts and residents in Saudi Arabia:

* Interviews with Japanese machinery experts and petrochemical technicians at High Institute of Plastic Fabrication (HIPF), Riyadh in May, October, and December in 2011 and March, May and October in 2012 on Saudi human resource development and management, programme and system of the institute, etc.

* Interviews with local residents in Jeddah (April 2015) on water supply and sewage treatment systems in the downtown residential area.

* Interview with a Japanese expert (Riyadh, August 2015) who had been working in Saudi Arabia for more than two decades (specialised in financial and industrial sectors) on business opportunities in the field of defence and security.

* Interview with three Japanese (automobile) experts and technicians (Mr. Chiharu Mizutani (Toyota), Mr. Yoshifumi Hase (Nissan), and Mr. Nobuo Ohno (Honda)) at the Saudi Japan Automobile High Institute (SJAHI) in Jeddah on March 3, 2016 on issues of Saudization, management of the institute, and trend of automobile market in Saudi Arabia.

c. Meeting memos:

(The author was stationed in Riyadh (2003-06 and 2009-12) and in Jeddah (2012-15) for his job assignment and, in this capacity, attended business meetings relevant for this research)

Meeting memo (Prince Salman, in Riyadh, 2003):

On the occasion of the visit of the Japanese Cultural Dialogue and Exchange mission to Saudi Arabia in September 2003, the author attended a meeting (as an embassy staff) with Prince Salman, (then) Riyadh Governor in Prince Salman's office in Qasr al-Hukm, Riyadh.

Meeting memo (King Faisal Centre for Islamic Research and King Saud University in Riyadh, 2005):

The author attended the meeting between Japanese researchers and Dr.Mazen Mutabbaghani in King Faisal Centre for Islamic Research, and Dr.Faris Shihab in King Saud University.

Meeting memo (German Embassy, in Riyadh, 2005):

Business meeting with German embassy staff in November 2005.

Meeting memo (SEHAI working group companies, in Riyadh, 2008):

The author attended a meeting of JCCME's feasibility survey mission.

Meeting memo (JICA, in Riyadh, 2009).

JICA's master plan for energy-saving in Saudi Arabia.

Meeting memo (SEHAI, in Riyadh, 2009).

Meeting memo (SEHAI instructors, in Riyadh, 2009).

Meeting memo (SEHAI experts, in Riyadh, 2009):

The author had a job assignment as a senior coordinator at SEHAI, Riyadh (2009-2012), together with other two Japanese technical experts (Mr.Takashi Tsuchiya, Electrical Engineer and Mr.Koetsu Konishi, AC Engineer) and had regular meetings with them.

Meeting memo (SEHAI working group companies, in Riyadh, 2010):

The author had meetings with Saudi distribution agent companies of Japanese

electronics and home appliances products in 2010 and 2011.

Meeting memo (Unicharm, in Riyadh, 2011):

The author had a business meeting with Unicharm's company executive, Mr.Katbe in Riyadh factory in April 2011.

Meeting memo (National Industrial Clusters Development Program (NICDP), in Riyadh, 2012):

Meeting memo (Royal Commission Jubail and Yanbu (RCJY), in Yanbu, 2014):

The author visited sea-water desalination plant in Yanbu in 2014 with Japanese water utility engineers for business discussion.

Meeting memo (the Islamic Corporation for the Development of the Private Sector (ICD), in Jeddah, 2014):

The author had a meeting with Mr.Khaled al-Aboodi, CEO of ICD and his Egyptian advisor in his Jeddah office in September 2014 before ICD signed an MOU on Islamic finance development with Japan International Cooperation Agency (JICA).

Meeting memo (Azizia Panda, in Jeddah, 2014):

The author had business meetings with the largest Saudi retailer company, Azizia Panda and other traditional merchants in Jeddah in 2014.

Meeting memo (Tamer Group, in Jeddah, 2015):

The author had a business meeting with the CEO of Tamer group, a Saudi partner of Saudi-Japan joint venture company, SAJA Pharmaceuticals.

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