

THE SECOND

N I R A - I A I

MEETING

TOKYO, 14-16 SEPTEMBER 1992

ICI ISTITUTO LOMBARDO DI SCIENZE E LETTERE - ROMA
n° 12929 1 APRILE '93
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NIRA-IAI MEETING
National Institute for Research Advancement
Istituto affari internazionali
Tokyo, 14-15/IX/1992
(solo sintesi)

- a. Program
1. "Perspectives on the importance of oil and the Middle East"/ Pier Carlo Padoan
 2. "The economic contribution of Japan and Italy in the new world order"/ Pier Carlo Padoan
 4. "Japan's and Italy's relations with the US"/ Cesare Merlini
 5. "Japan's possible contribution to the CIS and the issue of the Northern territories"/ Fumio Uda
 6. "Relations between Italy and the former USSR"/ Marco Carnovale
 7. "Japan and the Middle East"/ Yoshiro Mutaguchi
 8. "Political change and stability in the Middle East"/ Laura Guazzone
 9. "The increasing importance of Middle East oil and Japan's response"/ Tsutomu Toichi

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Program for the Second NIRA-IAI Meeting

September 14 (Monday)

10:00-10:05 Opening Address

Moderator: Ukeru Magosaki
Director
International Cooperation Department, NIRA

Japanese address: Shinyasu Hoshino
President, NIRA

Italian address: Cesare Merlini
President, IAI

10:05-11:20 Session 1-A: "The Political Contribution of Japan and Italy to the New World Order"

Chairman: Prof. Takeshi Igarashi
Speaker: Prof. Takashi Inoguchi
Speaker: Dr. Stefano Silvestri

Discussion

11:20-12:30 1-B: "The Economic Contribution of Japan and Italy to the New World Order"

Chairman: Prof. Takeshi Igarashi
Speaker: Prof. Kazumasa Iwata
Speaker: Dr. Pier Carlo Padoan

Discussion

12:30-14:00 Lunch

14:00-15:15 2-A: "Japan's and Italy's Relations with the U.S."

Chairman: Dr. Stefano Silvestri
Speaker: Prof. Takeshi Igarashi
Speaker: Dr. Cesare Merlini

Discussion

15:15-16:30 2-B: "Japan's and Italy's Relations with the CIS"

Chairman: Dr. Stefano Silvestri
Speaker: Prof. Fumio Uda
Speaker: Dr. Marco Carnovale

Discussion

September 15 (Tuesday)

10:00-11:15 Session 3-A: "Political/Social Aspects of the Middle East (inc. evaluation of Islamic movements)"

Chairman: Makoto Watanabe
Board Member, Japan International Cooperation Agency
Speaker: Prof. Yoshiro Mutaguchi
Speaker: Dr. Laura Guazzone

Discussion

11:15-12:30 3-B: "Perspectives on the Importance of Oil and the Middle East"

Chairman: Makoto Watanabe
Board Member, Japan International Cooperation Agency
Speaker: Tsutomu Toichi
Director of Studies, The Institute of Energy Economics, Japan
Speaker: Dr. Pier Carlo Padoan

Discussion

12:30-14:00 Lunch

14:00-16:25 4: "Security Issues and the Peace-Making Process in the Middle East"

Chairman: Dr. Cesare Merlini
Speaker: Makoto Watanabe
Board Member, Japan International Cooperation Agency
Speaker: Dr. Stefano Silvestri
Dr. Laura Guazzone

Discussion

16:25-16:30 Closing Address

Moderator: Ukeru Magosaki
Director
International Cooperation Department, NIRA

Italian address: Cesare Merlini
President, IAI

Japanese address: Shinyasu Hoshino
President, NIRA

18:30-20:30 Dinner
(at restaurant "Reda", Shinjuku Center Building 53F)

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B.BLIOTECA

Session 1 - A

Japan's and Italy's Global Contributions in the New World Order

by Takashi Inoguchi (University of Tokyo)

paper outline prepared for presentation at Session I A of the NIRA-IAI conference. NIRA, Tokyo, September 14-15, 1992.

1. Three Major Features of the New World Order in the Wake of the End of the Cold War

(a) U.S. military supremacy and its vulnerable techno-economic foundations

(b) globalization and regionalization of economies

X (c) liberalization of domestic societies and its destabilizing potentials

2. Japan's and Italy's Global Role

the commonality being that both are expected to play its positive and active supporter's role vis-a-vis the U.S.-led global community in the pursuit of global solution of the common set of tasks which are posed by the three major features of the post-Cold War era world order.

(a) Japan-U.S. Security Treaty and regional security regime possibilities versus NATO and post-Maastricht EC and WEU and CSCE

(b) GATT Uruguay Round and APEC and EAEC and NAFTA versus GATT Uruguay Round and post-Maastricht EC

(c) Robust economic management and ODA and FDI and Japanese Political-Economic Development Model versus ????

3. Putting House in Order before Playing Global Role

(a) Greater Effectiveness

(b) Greater Transparency

(c) Greater Commitment and Compassion

4. Conclusion

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PERSPECTIVES ON THE IMPORTANCE OF OIL AND THE MIDDLE EAST
(P.C.Padoan)

I will focus on this topic from the point of view of Europe in the present stage of European integration, with particular attention to the consequences of the integration of Eastern European countries in the European Community.

The European Community has a a pressing interest in accelerating the process of integration of the formerly planned economies of Eastern Europe. From this point of view one of the most pressing obstacles is the lack of adequate financing of imports (especially high tech goods) from the more advanced economies. Such a financing could be obtained -especially in the case of the former Soviet Union- by stepping up exports of energy products (gas). In such a case European Community imports of oil and energy from the Middle East would be partially diverted and the economic relevance of the area relatively contained .

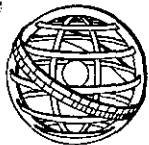
In the medium run this possibility could stabilize the market for oil and energy commodities and make resources available for other developed and developing regions at more stable and convenient conditions.

This possibility must be considered in a wider perspective related to the problems of shortage of saving and "recycling" which presently represent one of the major obstacles to a new phase of growth in the world economy.

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THE ECONOMIC CONTRIBUTION OF JAPAN AND ITALY TO THE NEW WORLD ORDER (P.C.Padoan)

The contribution of Italy to the new world order should be considered from two different but complementary viewpoints: the process of European integration and the process of global cooperation among the three large economic areas.

The global economic system can be considered as a large tripolar framework which requires rules and institutions of a different nature from those which sustained the -by many ways- exceptional episode of growth and stability of the post war period. Such a system is by far more complex to organize and it requires, therefore more flexibility than the old one.

It is not obvious that a multipolar system will spontaneously generate a stable cooperative framework. Chances are that economic conflicts at both regional and national levels lead to mounting protectionism as well as financial and monetary instability. These two aspects, in turn, may interact perversely with each other. This leads to global tensions which are exacerbated by the increase of economic interdependence in both trade and financial flows.

In such a framework the contribution of a country like Italy can be one of active support in all relevant economic and political fora for the pursuit of a global as opposed to bilateral solution to economic conflicts.

In this respect Italy has a possibly more crucial role to play within the European Community. The process of European integration is now facing a dramatic perspective determined by the three "institutional shocks": the completion of the Single Market, the final stage of the European Monetary Union, the enlargement. These three processes interact with each other and are also influenced by events outside Europe. It is in the interest of global cooperation that such processes develop rapidly and successfully. A stronger and more integrated Europe represents a fundamental condition for the establishment of a new global cooperative framework. A weaker and more fragmented Europe would, on the other end, pursue inward looking and possibly nationalistic practices. Italy is actively supporting the process of deepening and widening in economic relations. However one crucial condition for this support to be effective is that Italy credibly implement a policy of domestic economic adjustment.

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- (c) Robust economic management and ODA and FDI and Japanese Political-Economic Development Model versus ????

3. Putting House in Order before Playing Global Role

- (a) Greater Effectiveness
- (b) Greater Transparency
- (c) Greater Commitment and Compassion

4. Conclusion

Session 1-B

The Economic Contribution of Japan and Italy to the New World Order

Kazumasa Iwata
Dept. of Social Science
University of Tokyo

I. World Economic Conditions

Weak Economic Recovery

U.S.	Slow recovery (the burden of debt)
E.C.	German high interest policy (the burden of reunification)
Japan	Economic measures to boost the growth rate from 2% to 3%, but the recovery will still be slow Financial instability (the burden of the collapsed "bubble")

Restructuring of the former socialist bloc countries

II. Medium to Long-term Prospects for the World Economy

Advancing Multipolarity

The establishment of three economic groups of similar scale

EC + EFTA

EC as a rule maker (Thurow)

Regional unification, fixed exchange rates, anti-trust policy, banking system, corporate law

Rhine capitalism and U.S. capitalism

NAFTA

Free trade zone, not unification

Japan and Asia

Open regionalism - APEC's three principles

III. Japan's contribution

Success of the Uruguay Round

Developing countries' debt problem - reduction of debt and parallel financing

Financial and technical assistance to Eastern Europe and the former Soviet Union

Contribution to the global environment - the transfer of energy conservation technology

Table Medium-Term Perspective of World Economy

- GMP -

(trillion dollar)

Country/Region	1990	2000	External Debt(1990)
U.S.A.	5.46	8.90	0.41(net)
NAFTA	6.28	10.24	"
Latin America	0.83	1.41	0.34
Total	7.11	11.65	+64.8%
EC	5.50	8.97	-
EFTA	0.62	1.01	-
Eastern Europe	0.48	0.71	0.18
Total	6.60	10.69	+60.9%
Japan	3.14	7.03	-0.33(net)
East Asia (NIES+ASEAN)	1.03	3.20	-
South Asia	0.37	0.59	0.12
Total	4.54	10.89	+139.8%
North Africa+Middle East(*)	0.15	0.24	0.14
South of Sahara	0.16	0.26	0.15
China	0.36	0.71	0.04
CIS(**)	0.52	0.68	0.06

10.24
6.28
3.96 +50%
63%

8.47
5.50
1.47 +26.7%
26.7%

7.03
3.14
3.89 +100%
102.4%

(*)excluding high income oil producing countries.

(**)estimates based on the assumption that per capita income is in the same range of Poland or Mexico.

456 2711
426 60,628
2760
660
60649
60700
50000
6400
470

389 314
780
628
1220

628 3860 628
2768 0.67
1920
4000 660
4000
1470 550
1100 0 267
3700
3200
4200

Takeshi Igarashi

Professor, Institute of Oriental Culture, University of Tokyo

I. U.S. Policy Toward Asia After the Cold War

1. Security

- a. Phased withdrawal of U.S. forces from Asia--Asian nations' concern about a "Power Vacuum" and "The Japan Threat."
- b. Line of defense to the Persian Gulf: Military strategies and the U.S.-Japan Security Treaty.

2. From Economic Relationship to Community

- a. Superior trade in the Asian region--the potential power of Asia's economic development.
- b. The Idea of an "Asia-Pacific Community"--the promotion of democracy and respect for human rights.

II. Friction and Pending U.S.-Japan Problems

1. Continuation of the Trade Imbalance

- a. Protectionism movement in the United States
- b. Japan-U.S. Structural Impediments Initiative Talks and Japan's growth to a "Better Quality of Life."

2. Security in the Asia-Pacific Region

- a. Stabilization of the quadripartite relationship between Japan, the United States, China, and C.I.S.--the issue of the Northern Territories.
- b. Establishment of a mechanism for discussions on security problems--change of the U.S. policy to multinational discussion.

III. Direction of Global Partnership

1. Japan's Initiative and America's Response

a. The issue of capital increase of the Asian Development Bank--
resistance from the United States.

b. The issue of reducing COCOM restrictions toward C.I.S.--
resistance from Japan.

2. Utilization of Japan's ODA: global environmental problems and
accumulation of debt.

3. Dealing with the situation of C.I.S. and Europe--Japan's joining CSCE as an
associate member.

4. Japan's participation in PKO and strengthened cooperation with
the United Nations.

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Session 2 - A

JAPAN'S AND ITALY'S RELATIONS WITH THE US

(by Cesare Merlini)

Italy's two most important foreign policy guidelines are European integration and Atlantic solidarity. The relationship with the United States has been, since World War II of paramount importance both in multilateral terms within the Atlantic framework and in bilateral terms.

The collapse of the Soviet system is bound to have an impact on the perception and the reality of the role of NATO and, consequently, of the US. NATO is currently searching for a mission. The outcome will have an influence on the relationship between the European countries and the US. Whether nuclear deterrence will remain an important factor of security is also relevant.

Conversely the role of the Atlantic Alliance in the security of the US stressed the importance of the allies in the eyes of the Americans. A number of commitments that Italy, f.i., made to the strategic requirements of the Alliance were strong factors in the perception of Italy as the friend of the US.

The new situation is likely to generate the perception that both Italy is a less important ally of the US and that the US is a less important protector of Italy.

However, the Gulf War restored the image of the US as a leader of the Western system and a guarantor for the international security. Italian public opinion (as described in previous meeting) was divided about the degree of the Italian participation in the coalition. At the end, Italian participation was small but politically sufficient. The result of the conflict came on the side of those who had advocated a stronger participation.

Two other factors enhanced the Italian perception of the international role of the US:

1) the way Washington accompanied the transition for the USSR to the CIS, from Gorbachev to Eltsin. Of particular relevance has been the handling of the complicated issue of nuclear weapons;

2) the starting of a peace process in the Middle East and the steering of a change of government in Israel.

Beginning late 1991, however, the international leadership of the US president has become much less convincing. The examples are known. Particularly relevant to the Italian public opinion have been:

- the oscillating policy towards, the former Yugoslavia and later the reluctance in playing a role (with a certain contrast with respect to the activism towards Iraq);
- the negotiating position in the Uruguay Round.
- the performance at the Rio Conference;
- the benign neglect vis-à-vis the dollar going down, with consequent strong tensions among the European currencies.

Of course elections are very relevant to all that. Domestic considerations are dominant. The image of the candidates is not very positive (but so has been in several previous campaigns).

(The conclusions will develop a few points related to the future perspective)

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Japan's Possible Contribution to the CIS and
The Issue of the Northern Territories

Fumio UDA

Professor, Faculty of Foreign Studies

Sophia University

Today's subject is Japan's position on and attitude toward the Commonwealth of Independent States (CIS). However, the discussion will be virtually meaningless unless we address the issue of the Northern Territories. For now, the Japanese Government persistently maintains the position it has adopted for more than thirty years, which is the request for the immediate and unconditional return of the four northern islands: Kunashiri, Etorofu, Shikotan, and Habomai. Japan has taken the position that unless this territorial problem is resolved, it will not conclude a peace treaty with Russia and will not provide Russia with economic cooperation (the so-called principle of the indivisibility of politics and economy).

With Russia's recent change of policy on this issue, the demise of the Soviet Union, and rapid transition of the Russian political situation, the conditions setting the stage for this problem have largely changed. In response to this, Japan has also softened its attitude by proposing that if potential sovereignty for Kunashiri and Etorofu Islands is recognized, Japan is ready to negotiate with Russia on the timing and conditions of the return. This was a major compromise for Japan in particular. However, the problem is whether Japan and Russia can reach an agreement along these lines, entering into a new era by solving such long-standing problems.

Considering circumstances in Russia, it must be said that it will be very difficult to reach such an agreement with Japan in the near future. Moreover,

considering the international situation, if Japan takes a negative stance in international joint actions toward Russia (CIS) due to the territorial problem, it may receive various criticism and pressure. Then, Japan will be obliged to further soften its attitude toward the Northern Territories issue.

It seems that it will be difficult for Japan's current request to be met, based on the following two major reasons. First, the territorial issue has become a "hot" political issue in Russia, and as the problem of "selling the territories" stirs up national sentiment, it will become the perfect target of attack by political enemies. Thus, those who have to hammer out measures are expected to face severe resistance (as experienced by recent Russian leaders), so this must be the problem they most want to avoid. Last spring, when Mr. Gorbachev visited Japan, both the Japanese government and citizens saw his visit as a golden opportunity and expected that the territorial issue would greatly advance. However, it became clear that Mr. Gorbachev had no possibility of compromising due to the domestic political situation, and therefore considering such a prospect and holding out high expectations without considering Russia's circumstances became meaningless. In Russia, the problem of the Northern Territories has lost its original meaning and become a weapon for political struggle.

Secondly, it is not clear with whom Japan should negotiate for the Northern Territories on a long-term basis. Of course, at present, the partner in negotiations is Russia. However, it is possible that Russia may further fractionate or re-unite in the relatively near future. The fate of the CIS is even more unstable, and it is unclear how such instability will affect Russia (the subject of this problem). If this territorial problem has a major influence on the problems of borders and territories within the already unstable CIS, the position of Russian leaders will become even more delicate.

Thus, it is hard to believe that such a fundamental problem will be finally resolved at this time.

On the other hand, supposing that Japan softens its position and its options are expanded, what kind of progress can we expect? First, we can expect the stability of Northeast Asia and the Far Eastern area. In this area, there is the Korean Peninsula, where military tension has not been eased, but which also faces the more serious factor of instability--that is, the possibility of the conversion of the Establishment in China. Under these circumstances, the Far Eastern area belonging to Russia had military significance only in the past and was a kind of "vacuum" from a socioeconomic viewpoint. Now, this area has presented huge possibilities. We can imagine various scenarios about the activation of this area. Among them is one in which Japan can make many contributions to its stable development.

Japan can also do many things to help rebuild Russia itself. Although many people are doubtful of direct economic aid to Russia, in so-called intellectual support, there are not a few things that can be driving forces for the rebuilding of Russia. In addition to a tie-in of production technology, cooperation in the area of economic policies and business management is often pointed out as a possibility. Contributions could be such as conveying Japan's post-war experience of economic rebuilding, the know-how of economic growth led by the government, and so-called Japanese style management. Even though the problem of the Northern Territories is unresolved, I believe that we can build the mutual reliance essential to these endeavors, and the prospect of Japan's direct investment will thus be opened.

In addition, there are many things Japan can do for the CIS. However, Japan's diplomacy must have freedom of action. For this purpose, softening its policy on the Northern Territories is required. This does not necessary mean that Japan has to withdraw its basic request of the return of the four

islands. However, if it is extremely difficult for Japan's traditional request to be realized as such, I think that Japan should postpone the time of the return and the change of policies for the realization of the return-- without making concessions on its fundamental position. Japan's diplomacy should prepare conditions for such a future solution, making use of the freedom of action obtained by its softened attitude. It could thus seek a way to realize an international contribution to the CIS while pursuing its national interest in the international order.

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6

Relations between Italy and the former USSR

outline of a presentation by

Marco Carnovale

Prepared for the bilateral IAI-NIRA meeting, Tokyo, 14-15 September 1992.

September 6, 1992

I. Relations in the pre-Gorbachev era

A. politically antagonistic but economically cooperative

B. Italy founding member of NATO but also pioneer in trade and direct investment in the USSR

C. two-track policy: in early '80s, simultaneously Euromissiles and pipeline deal.

D. In the security field Italy has usually closely followed the US, less critically than other West Europeans.

E. In the economic field, on the contrary, Italy has been closer to West European positions, at times in open conflict with the US

F. Goal was

1. to contain Soviet international political influence.

2. while giving Moscow an always greater stake in the maintenance of the status-quo

3. also need to diversify energy supplies, especially after 1973

G. Can argue that this policy was largely successful, though Italy rarely took the initiative herself (~~e.g. during 1980s~~)

II. Relations in the Gorbachev era: partial reversal:

A. political relations quickly become warmer,

1. arms control treaties, both multilateral and bilateral (INCSEA)

2. treaty of friendship and cooperation (Rome, nov. 1990)

3. scientific exchanges

4. support in international organizations

B. but economic and business relations do not follow

1. initially suspicious of Gorbachev's intentions

2. later officially support economic reform in USSR, but does not follow up with concrete support.

3. only in 1990-91 government steps in, while private sector is scared away by failure of *perestrojka* to produce appreciable results; but too little, too late, though a greater involvement probably would not have made

much difference

4. former USSR largest beneficiary of export credits, with total accumulated debt of about 6,000 Bn lire. (from SACE)

5. nonetheless trade declines, with Italian exports plunging because of Soviet inability to buy; chronic trade deficit worsens

III. Relations with the post-Soviet successor states

A. mainly economic contacts, but also military-to-military contacts, with reciprocal visits by Chiefs of Staff of Italy and Russia.

B. About 75% of credit promised to USSR (5,000 billion lire, i.e. about 4.5 Bn dollars, over five years) goes to Russia, but problems in actual outlays because of domestic difficulties in Italy. Only about 1,200 approved so far)

C. Ukraine, 38 Mn Dollars in JV statutory capital, largest foreign investor (US second largest with 25, Germany 20)

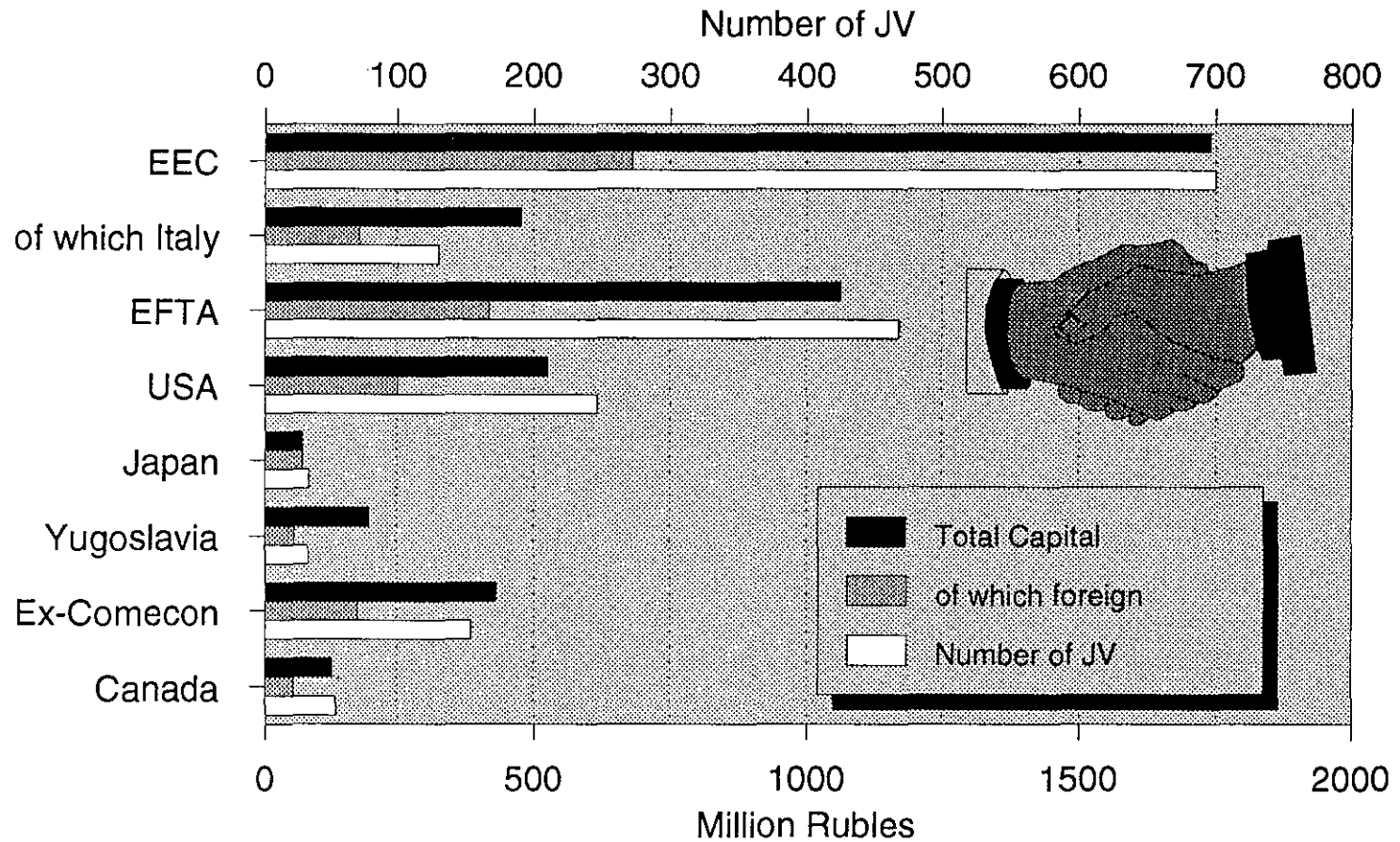
D. Kazakhstan: ENI (with British Gas) won a 7 Bn dollar contract to develop oil and gas fields

E. investment by large concerns (FIAT, Ferruzzi, ENI) but more prudence on the part of medium and small investors

Financial Assistance th the USSR, to nov. 91 (funds actually disbursed)					
Country	TOTAL ASS. (000 ECU)	%	TECHN. ASS. (000 ECU)	%	
EC	2.403	4,5	400	42,6	
Member States	35.357	66,1	214	22,9	
of which	Germany	27.787	52,0	139	14,9
	Italy	4.651	8,7		
	Spain	1.074	2,0		
	France	954	1,8		
	UK	72	0,1	72	7,7
EFTA	1.944	3,6	130	13,9	
of which	Finland	1.206	2,3	72	7,7
	Norway	140	0,3	39	4,1
	Sweden	29	0,05	18	1,9
Other Countries	13.730	25,7	193	20,7	
of which	USA	3.285	6,1		
	Japan	2.166	4,0	165	17,6
	South Korea	2.464	4,6		
TOTAL	53.435	100	938	100	
Source: Commission of the EC, DG 1, «Soviet Union» November 1991.					

Joint Ventures in the USSR

Foreign Investors, 1991



Marco Carnovale, IAI
 Fonte: Economic Commission for Europe

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JAPAN AND THE MIDDLE EAST

Yoshiro Mutaguchi
Professor, Toyo Eiwa Women's University

The Farthest Region

The Middle East is extremely far away from Japan. Japanese first visited the Middle East, in particular Egypt, in the 1860s. By contrast, Italy has a history of 2,000 years of relations extending back to the days of Caesar and Cleopatra. I discovered the nature of this contrast 35 years ago when I lived in Cairo. My own personal experience was that at the time, there was a fine community of Italians in this Egyptian capital who managed their own schools and published their own newspaper. I was surprised to discover these facts, but then remembered that Egypt is across the Mediterranean from Italy. Thus, they are neighbors.

Japan, on the other hand, has always viewed the Middle East from a certain psychological distance. Japan began its policy of modernization in the latter half of the 1860s. The goal of modernization at that time was to catch up with and surpass the West. In order to accomplish this goal, many members of the Japanese elite were sent by ship through the Suez Canal into the Mediterranean en route to Europe. To them, the Middle East was not much more than an area through which to pass. Ninety years later, when I went to Cairo in the 1950s, there were no Japanese students in the Middle East, as the Japanese Ministry of Education did not permit education exchange to Egypt. Given this background, it is easy to see why the Middle East came to be the farthest region, in psychological terms, from Japan.

The October War

Japan first recognized the complexities of the problems in the Middle East during the October War in 1973, and it was at this point that the Japanese became aware of their deep involvement with the Middle East. As an editorial writer for the Asahi Newspaper, Japan's most prominent daily, I followed the war and paid great attention to such shifts. The question was: why did this occur? The explanation can be found in the changing relationship Japan experienced toward the Middle East during the four wars of the Israeli Conflict.

The first war was called the Palestinian War, and was fought in 1948 as a result of Israel's declaration of independence. This new country attained the sympathy of the international community and won the war. In so doing, Israel solidified her foundations. At that time, Japan was not an independent member of the international community--as a vanquished nation, Japan was not yet a member of the United Nations and had no connection whatsoever with the U.N. General Assembly's decision of November 1947 on Palestine.

The second war was the Suez War, which continued from the end of October to the middle of November 1956. Then, too, Japan was not a member of the United Nations.

The third war, in June of 1967, was called the Six Day War because of Israel's overwhelming victory over the Arab countries in a six day period. However, at the time, Japan placed too much emphasis on economic aspects and did not pay attention to the political significance of the dispute. Instead of focusing on the origins of the dispute or how it should be resolved, the greatest interest in Japan was generated over why tiny Israel was so strong and why the Arab countries always lost.

Of course, Japan imported large quantities of oil from the Middle East and this was the basic force behind the Japanese high-growth period. However, the Persian Gulf's oil fields, which were the main supply source of Japanese oil, were far from the area of the conflict, so oil was dealt with as a simple economic problem. In addition, 70% of Japanese oil was supplied by the major oil companies, which also contributed to a lack of concern.

It was in autumn of that year, November 1967, that the famous U.N. Security Council

Resolution 242 was passed to suggest a solution to the Middle East crisis.

Given this background, the shock experienced by Japan from the fourth Middle East war, The Gulf War, was immeasurable. The Arab strategy of linking Palestinian rehabilitation to the oil supply shook Japan at its roots--as Japan was a country that had placed its emphasis on the economy and increasing its GNP in the post-war years. At the time, Japan was dependent on Arab oil for 70% of its consumption. If as little of 10% of said supply was stopped, people questioned what would become of the Japanese economy. On November 22, the Tanaka Cabinet announced a new Middle East policy in the form of a Cabinet Secretary statement, and in so doing, narrowly overcame the crisis.

The Meaning of the "New Middle East Policy"

The major characteristic of the "New Middle East Policy" was that it interpreted U.N. Resolution 242 more sympathetically to the Arabs than before, and was therefore harsher towards Israel. The new policy can be summarized in the following three points, as described in the handout.

1. Israel should withdraw from all territories occupied in the 1967 War.
2. Japan recognizes and respects the legitimate rights of the Palestinian people, in accordance with the U.N Charter, in bringing about a just and lasting peace in the Middle East.
3. The Japanese government may have to reconsider its policy toward Israel, depending on future developments.

This statement by a Japanese Cabinet Secretary shocked both the United States and Israel. In issuing this statement, Japan clearly departed from its neutral stance toward the Arab-Israeli conflict and made a commitment to the Arab side, separating itself from the "follow the U.S." diplomacy that has lasted a quarter of a century.

Since Japan's return to the international community in 1956, Japan's foreign policy has centered around the following three basic principles:

1. Emphasis is placed on the United Nations.
2. Japan belongs to the Western camp.
3. Japan firmly holds onto its position as an Asian nation.

However, Japan was an ally of America, and in reality it has been a principle of Japanese foreign policy to follow the U.S. For example, emphasis on the U.N. meant that Japan would agree with American proposals at the U.N. while agreeing with the U.S. did not contradict being a member of the Western camp, however, the principle of Japan's being an Asian nation was often ignored. This is the reason why Japanese foreign policy has been described as simply "following the Americans."

However, the Japanese "New Middle East Policy," while claiming U.N. Resolution 242 as its prerequisite, went beyond the framework of the Resolution by accepting and respecting the just rights of the Palestinians, urging a complete withdrawal of Israeli forces. U.N. Resolution 242 does not contain expressions such as "a complete withdrawal" or "the Palestinians." Thus, the Japanese statement effectively freed Japan from American Middle East policy to support the Arab claims. However, it took Japan four times longer--namely an entire month--than the European Community member nations to come to this conclusion. The fact that it took that long reflects the level of agony that the Japanese government went through. In any case, the statement can be described as a Japanese revision of U.N. Resolution 242 more favorable to the Arabs. Since then, Japanese Middle East policy has been based on this statement.

In December 1979, the then-Prime Minister Ohira responded to a question at the plenary session of The House of Councillors as follows: "We interpret the right of auto-determination of the Palestinians to include the right to establish their own independent nation."

This response represented the fact that Japanese Middle East policy went beyond that of the EC, and was in agreement with that of the Soviet Union. Later, in October 1981, when Yasser Arafat, the President of the PLO (Palestine Liberation Organization), visited Japan, the

then-Prime Minister Suzuki met privately with him. At that time, Suzuki was the only Western leader who was known to have met with Arafat in person.

Beyond Oil-Diplomacy

Japan's pro-Arab diplomacy, however, ceased to be politically positive following that period. There were two reasons for this:

1. In the 1980s, the supply-demand relationship of oil was greatly relaxed and the so-called oil-glut period commenced. In addition, Japanese oil stock amounted to an over 140-days supply, thus eliminating the possibility of being controlled by the policies of oil-producing nations.
2. During the Gulf Crisis incurred by Iraq in 1990-91, the PLO clearly supported the Iraqis. Such a move urged the Japanese government to embark on its effort to improve its relationship with the Israeli government.

During a House of Representatives hearing in the Standing Budget Committee on February 16, 1991, I was asked to speak on Japanese Middle East policy. This was one week before the Gulf Crisis accelerated to a ground war. One Dietmember asked, "When peace returns to the gulf, I believe that Japan should make an independent effort to persuade Israel and the United States to agree on withdrawal from the Occupied Territories. What is your opinion in that regard?" I answered that we all should recall our Middle East policy, as clearly stated in the Cabinet Secretary's Statement of November, 1973, which the then-Prime Minister Ohira further clarified with his remarks. I mentioned the fact that Israel, however, has not withdrawn after all these 24 years, which proved the lack of cooperation among the international community. Although the United States was the most negligent, Japan is also responsible. At the end of the aforementioned Japanese New Middle East Policy statement, it reads "The Japanese Government will continue to watch the Middle East situation with great interest. At the same time, we will have to reconsider our policy towards Israel depending on future developments in the situation." These are bulldozing words, so to speak.

"Nevertheless," I said, "In the past 24 years, I cannot recall even one instance where the Japanese government reconsidered its policy towards Israel. Thus, once there is peace in the Gulf, Japan should make comprehensive efforts to actualize U.N. Resolution 242 and 383 at the earliest opportunity, mainly through the United Nations. Yes, I believe that Japan should make positive efforts to attain that goal."

During the following year-and-a-half period, the Soviet Union collapsed and the Cold War became a thing of the past. In this monopolar age, the role of the United States in the world has increased. Direct negotiations between the Arabs and Israel, which were initiated under the leadership of the United States, have for the first time shed a hopeful light on this regional dispute which has set a world record in duration.

At the beginning of this paper, I stated that Japan was too far away from and had too few opportunities to have contact with the Middle East. However, this disadvantage can be turned around in that we can view the conflicting parties from an unbiased and equal distance. As a Japanese, I hope that Japan can take advantage of such an approach and make positive efforts toward a resolution. In so doing, we will demonstrate Japan's full capacity--not simply for oil diplomacy but also for world peace.

Statement by Chief Cabinet Secretary

November 22, 1973

1. The Government of Japan has consistently hoped that a just and lasting peace in the Middle East will be achieved through the prompt and complete implementation of Security Council Resolution 242, and has continued to request the efforts of the parties and countries concerned. It has been prompt in supporting the United Nations General Assembly Resolution concerning the rights of the Palestinian people for self-determination.
2. The Government of Japan is of the view that the following principles should be adhered to in achieving a peace settlement.
 - (1) The inadmissibility of acquisition and occupation of any territories by use of force;
 - (2) The withdrawal of Israeli forces from all the territories occupied in the 1967 war;
 - (3) The respect for the integrity and security of the territories of all countries in the area and the need of 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 urges that every possible effort be made to achieve a just and lasting peace in the Middle East in compliance with the above-mentioned principles. Needless to say, it is the intention of the Government of Japan to make as much contribution as possible towards that end.

The Government of Japan, deploring Israel's continued occupation of Arab territories, urges Israel to comply with those principles. The Government of Japan will continue to observe the situation in the Middle East with grave concern and depending on future developments may have to reconsider its policy towards Israel.

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Istituto Affari Internazionali

(Outline of the presentation to be given at the IAI-NIRA meeting 1992 by Laura Guazzone)

POLITICAL CHANGE AND STABILITY IN THE MIDDLE EAST

1. An unprecedented number of elections have taken place or are scheduled in the Middle East in 1992. (Algeria dec.91; Syria: presidential e. dec. 91; Iran: may legislative; Lebanon: aug-sept. legislative; Kuwait: October 5, legislative; Morocco: local & legislative nov.; Yemen: nov. legislative) Some countries have undertaken major constitutional revisions (Saudi A.: March; Morocco: September). This is rather surprising for a region known for its authoritarian regimes, poor human rights record and volatile interstate politics.

2. In fact, in most cases this 'electoral fever' is the point of arrival of a drive for political liberalization emerged in the region since the late eighties. This trend was motivated by three main factors:

- the regimes' search for increased legitimacy needed to cope with serious socio-economic crises and implement economic reforms;
- the emergence of the Islamist movements as an organized political opposition;
- Western pressures on regional governments for the introduction of a modicum of parliamentary democracy.

In the second half of the eighties these factors led a number of Arab governments to undertake of a process of political change parallel to the structural economic reforms, often conducted with the support of the International Monetary Fund (Morocco 1983, Tunisia 1986, Egypt 1987, Algeria 1988, Jordan 1989; Syria and Libya introduced some economic liberalization in 1988 without IMF intervention).

Political reform initiated from above, which had some precedents in president Sadat's Egypt and Bourguiba's Tunisia, translated into a number of measures of political liberalization (e.g.more freedom of the press and attention paid to human

rights), the more important of which being the legalization re-activation or de fact acceptance of multipartitism (Tunisia 1988, Algeria and Jordan 1989).

The implementation of the twin policies of economic and political liberalization has taken different forms in the different countries, but some common features can be detected.

The most important of these features is the difficult synchronization between economic and political reform. Where (Algeria, Jordan, Egypt) measures of political liberalization were adopted at the same time of those of economic reform, political tension is higher, while where transition from centralized to market economy preceded political liberalization (Morocco, Tunisia, Syria) the political climate is less tense.

In all cases, the first phase of government-led structural economic reforms targeted broad macroeconomic disequilibria (public deficit, inflation) and the necessary provisions of containment of domestic demand had negative effects on income and employment. Anti-corruption moves and transparency measures have not been strong enough to convince the people that the new measures are really aiming at removing the privileges of state bureaucracies and ruling elites which are already taking advantage of the new privatization schemes. Even in the most promising cases (Morocco, Tunisia and Turkey) the economic growth produced by economic reform will not be able to contain employment/population growth imbalances in the short/medium term.

In this context, only bold political reform allowing new social strata access to a share in power can guarantee social peace and political stability. Thanks to past suppression of all other forms of political competition, the Islamists movements have monopolized this political request and, regardless of their distinct ideological discourse, represent the only real political opposition.

3. Therefore, in spite of the present wave of elections, the process of political change through democratization is limited by a number of contradictions that risk to derail it.

A clear evidence is that in a number of cases (Egypt, Tunisia, Morocco) opposition parties have boycotted recent elections and in most cases the rate of popular participation to the elections remain very low.

Domestically, this is due to the resistance to change by the political establishment (much in the same way it happened in the countries of the former Communist bloc), to the lack of tradition and popular support for multiparty politics, as well as to the challenge posed by Islamists opposition; all this has led in most countries to a dangerous polarization of the political game.

Because of an ambiguous use of the notion of democracy, its near monopoly of ideological legitimacy and the recourse to terrorism on the part of its most radical fringes, the Islamist opposition represents itself a threat to democratization and provide an alibi to the incumbent regimes' resistance to relinquish power.

The debate on Islamism and democracy is wide-ranging within and without the movements and countries concerned. Although the great majority of Muslims today subscribe to the idea that consultative government is not only compatible, but central to the Islamic state, the question of the proper relationship between popular sovereignty and divine sovereignty remains unanswered.

In political terms a distinction is made between Western style and Islam style democracy (endorsed also by King Fahd's and King Hassan); the most important effect of this distinction is that Islamic democracy allows a very limited space for political diversity and opposition: thus competing parties and minority rights risk to be severely curtailed or suppressed altogether (Iran).

5. At the regional level, current developments do not encourage peaceful political change either. Uncertainty over Iraq's future and the unstable balance of power in the Gulf region, the extension of Middle East rivalries to the Caucasian-Central Asia region, the slow progress of the Arab-Israeli negotiations, the political crisis in the Maghreb, the deep resentment of the GCC countries against all others as a consequence of the Gulf war: all seems to militate for less regional cooperation if not more conflicts.

6. It is likely that in the medium term the trend for political liberalization will be freezed de facto if not de iure and although the second phase of economic reform has no alternative, it will be much more difficult to implement in the absence of broader political support and could lead to more of the present civilian unrest.

A modicum of domestic political stability can nevertheless be achieved in a number of Arab countries by a compromise between the regimes in place (and namely the military) and the Islamist oppositions: this would defuse domestic strife but lead to more authoritarian, partially 'Islamized' regimes.

7. The problem for the West of this 'Pakistani' style involution of recent trends of political change is that, if it takes place, regional countries would possibly be more stable domestically, but would also continue to be nationalist and prone to military adventurism, unable to fully enforce economic liberalization, cut military spending and practice healthy development policies.

The entrenchment of incumbent regimes should not be encouraged for fear of an Islamist take over. In fact, the Islamists movements do not constitute an absolute threat to the West, as showed by the mixed record of relation with the existing Islamic regimes: Saudi Arabia, Iran, Sudan, Pakistan.

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1 APR. 1993

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The Increasing Importance of Middle East Oil and Japan's Response

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1. The International Oil Situation in the Wake of the Gulf Crisis

- * The international oil market under joint control of Saudi Arabia and the United States.
- * The improved relationship between Saudi Arabia and Iran and OPEC's oil policies.
- * The increasing expectation for a dialogue between oil-producing and oil-consuming countries vs. the reality.
- * Severe opposition to the introduction of a carbon tax from Middle Eastern oil producers.

2. The Increasing Importance of Middle East Oil

- * Asia's increasing demand for oil and sluggish oil production.
- * Continuous decline of oil production in the former Soviet Union and the United States.
- * Reappearance of increasing reliance on Middle East oil.
- * Oil policies of Saudi Arabia, Iran, and Iraq that may hold the solution to the oil problem.

3. Japan's Response

- * Strengthening of the economic relationship among Middle Eastern oil-producing countries.
- * Solidified Japan-Saudi joint oil refinery project.
- * Reinforcement of national oil reservation.
- * Policy of expanding use of natural gas.
- * Reinforcement of energy-saving measures.

The 279th Regular Meeting for Briefing Research Reports

June 22, 1992

Outlook For International Oil Situation After Vienna OPEC Conference
And Asian Oil Markets

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1. Crude oil prices climbed nearly \$2/bbl on the spot market following the Vienna OPEC conference in May in anticipation of further increases in the future. At the recent OPEC conference, the production ceiling was left unchanged (except for Kuwait) for the third quarter of 1992. In the background of the market uptrend was the wide-spread view among market circles that Saudi Arabia had allegedly shifted its policy toward an acceptance of higher prices. It appears that Saudi Arabia, now suffering from heavy financial deficits despite its rapid production increases in the wake of the Gulf crisis, is attempting to improve its relationship with Iran, an advocate of higher oil prices, and is strongly opposing the introduction of an energy/carbon tax as proposed by the EC Commission. Saudi Arabia seems to have shifted to a "policy of placing greater emphasis on prices," aimed at securing a comfortable oil income through an increase of \$2-3/bbl in crude oil prices rather than by increasing production.
2. Looking at the international oil situation for the period from the second half of 1992 through early 1993, the world's oil supply is projected to tighten overall, since demand for oil is expected to show a steady increase, with the U.S. economy following the path of recovery, thus exerting significant

pressure for a price increase. At the same time, there is very little likelihood that the decline in oil production in the former Soviet Union will slacken its rapid plunge, and full-scale resumption of Iraqi oil exports appears unlikely for some time to come. In the fourth quarter particularly, the majority of oil-producing countries, including Saudi Arabia, will have little excess production capacity, and hence, it is anticipated that crude oil supply and demand will tighten considerably. As a result, the crude oil price (in terms of the price of Dubai on the spot market) is projected to rise from the average of \$16.60/bbl in the first half of this year to the \$18-20/bbl level in the second half -- raising the average for the whole year of 1992 up to around \$18/bbl. Since the world economy is expected to turn upward in 1993, the undertone of the crude oil market is projected to remain steady, raising the price to around \$19/bbl on a yearly average basis, although the market may become temporarily bearish in early spring.

3. World demand for oil in the 1990s is forecast to grow at an average annual rate of around 1.5% (corresponding to an annual increase of about 1 million b/d). While the rate of growth will slow considerably in OECD countries and it will remain sluggish in the former Soviet Union and East European countries, a high growth rate is anticipated in developing countries centering on the Asian region. On the supply side, meanwhile, production increases are projected in the North Sea and developing oil-producing countries, but production in the U.S. and the former Soviet Union is expected to continue declining sharply, thus keeping non-OPEC's total production virtually at the current level throughout the 1990s. As a result, OPEC's production is forecast to show a steady increase from the 1991 average of 23.4 million b/d to 28.6 million b/d by 1995 and to 32.2 million b/d by 2000. Moreover, the move by oil-consuming countries to introduce an environment

tax is expected to provoke a sense of growing crisis among OPEC countries, thereby triggering a move to strengthen their efforts toward higher prices through production controls rather than price-cutting wars due to production increases. This means that the crude oil price (the nominal price of Dubai on the spot market) is very likely to move upward gradually from the current level of \$18-19/bbl to around \$23/bbl by 1995 and to around \$30/bbl by 2000.

4. While world oil demand is forecast to grow at an average annual rate of around 1.5% in the 1990s, oil demand in developing countries in Asia (including China) in which economies are continuing their rapid expansion is forecast to grow at a high rate of 4.8% a year. Demand for gas oil, gasoline and naphtha, in particular, is projected to grow at high average annual rates of 6.4%, 5.9% and 5.8% respectively at the expense of heavy products, thus leading to a shift toward an ever lighter product mix in the future. Plans are now underway in various Asian countries to upgrade quality specifications of refined products, with production of lead-free gasoline or gasoline of lower lead content and production of gas oil of lower sulfur content assuming considerable importance in the oil industry, as the national awareness of environmental and pollution problems rises.
5. In an effort to meet the growing demand for oil, centering on light products as outlined above, most countries in Asia have announced a number of plans for construction of new secondary processing facilities or expansion of such facilities for cracking and desulfurization, as well as topping facilities. Very few of these plans are likely to be actually implemented, however, because of such factors as inflated construction costs and oil companies' worsened financial conditions. Although plans for such increases in topping

capacity announced thus far total around 3.8 million b/d, only facilities for 0.43-1.41 million b/d are likely to be constructed in actuality by 1995, while demand for oil in Asian countries is projected to increase by around 2 million b/d during the same period. The supply of light products centering on gas oil is thus strongly anticipated to tighten in Asia from medium- and long-term perspectives. Moreover, it should be noted that the flow of refined products is undergoing a change. Product exports from Singapore are being directed to countries where demand growth is outstripping increases in refining capacity, because Japan and ROK have been increasing their own refining capacities and refinery crude runs at the expense of product imports from Singapore. In addition, oil products trade is expected to expand in the future due to the product quality gap among countries, since the upgrading of product specifications varies from country to country.

Table 1 Short-Term Outlook for World's Oil Supply and Demand

(Unit: Million B/D)

	Actual		Forecast									
	1991	1992					Average	1993				
		1Q	2Q	3Q	4Q	1Q		2Q	3Q	4Q	Average	
Demand												
OECD	38.0	39.3	37.4	37.8	39.6	38.5	40.0	37.7	38.4	40.2	39.1	
Former Soviet Union, Eastern Europe	9.6	9.5	8.8	8.5	8.6	8.9	9.1	8.4	8.1	8.2	8.5	
Others	18.8	19.3	19.3	19.7	20.2	19.6	20.2	20.4	20.8	21.1	20.6	
Demand total	66.4	68.1	65.5	66.0	68.4	67.0	69.3	66.5	67.3	69.5	68.2	
Supply												
OECD	16.3	16.8	16.2	16.3	16.7	16.5	16.9	16.3	16.4	16.8	16.6	
Former Soviet Union	10.4	9.6	9.3	9.1	8.9	9.2	8.6	8.4	8.2	8.1	8.3	
China	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.9	2.9	2.9	2.9	
Other non-OPEC	10.6	10.7	10.7	10.8	10.9	10.8	10.9	11.0	11.1	11.2	11.0	
Process gains	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	
Subtotal	41.5	41.2	40.4	40.4	40.7	40.7	40.7	40.0	40.0	40.4	40.2	
OPEC:												
Crude oil	23.4	24.1	23.6	24.4	25.5	24.4	25.9	25.3	26.0	26.9	26.1	
NGL	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Supply total	66.9	67.3	66.0	66.8	68.2	67.1	68.6	67.3	68.0	69.3	68.3	
Inventory changes	+0.5	-0.8	+0.5	+0.8	-0.2	+0.1	-0.7	+0.8	+0.7	-0.2	+0.1	
OPEC production capacity	-	-	-	-	26.1	-	26.9	27.3	27.7	28.1	27.5	
Capacity utilization rate (%)	-	-	-	-	97.7	-	96.3	92.7	93.9	95.7	94.5	

(Source: Actual figures -- IEA "Oil Market Report," June 1992; Forecast figures -- Prepared by IEE)

Table 2 Outlook for Oil Supply & Demand and Crude Oil Prices

(Unit: Million B/D; \$/Bbl)

	Actual	Forecast					Changes (million b/d)		
	1991	1992	1993	1994	1995	2000	1991-1995	1995-2000	
Demand total	66.4	67.0	68.2	69.4	70.3	75.6	+3.9	+5.3	
Supply	Non-OPEC:								
	OECD	16.3	16.5	16.6	16.6	16.5	16.0	+0.2	-0.5
	Former Soviet Union	10.4	9.2	8.3	7.9	7.5	8.5	-2.9	+1.0
	China	2.8	2.8	2.9	2.9	3.0	3.1	+0.2	+0.1
	Others	10.6	10.8	11.0	11.2	11.4	12.4	+0.8	+1.0
	Process gains	1.4	1.4	1.4	1.4	1.4	1.5	0.0	+0.1
	Subtotal	41.5	40.7	40.2	40.0	39.8	41.5	-1.7	+1.7
	OPEC:								
	Crude oil	23.4	24.4	26.1	27.5	28.6	32.2	+5.2	+3.5
	NGL	2.0	2.0	2.0	2.0	2.0	2.0	-	-
Subtotal	25.4	26.4	28.1	29.5	30.6	34.2	+5.2	+3.6	
Supply total	66.9	67.1	68.3	69.5	70.4	75.7	+3.5	+5.3	
Price of Dubai crude (Yearly average, spot)	16.6	18	19	21	23	30	-	-	

(Source: Actual figures -- IEA materials; Forecast figures -- Prepared by IEE)

Table 3 Forecast of Product-by-Product Demand in Asia -- 1995 and 2000

(Unit: 1,000 B/D)

	Gasoline	Naphtha	Kerosine/Jet Fuel	Gas Oil	Fuel Oil	Fuel Products Total
1991 (Actual)	1,146.5	566.5	824.1	2,296.8	2,046.7	6,880.6
1995 (Forecast)	1,514.7	795.0	993.5	3,060.3	2,297.1	8,660.6
2000 (Forecast)	1,913.0	939.4	1,207.7	4,001.1	2,420.0	10,481.2
Annual average rate of growth (%):						
1991-1995	7.2	8.8	4.8	7.4	2.9	5.9
1995-2000	4.8	3.4	4.0	5.5	1.0	3.9
1991-2000	5.9	5.8	4.3	6.4	1.9	4.8

(Note) Asia includes China, but excludes Japan and Australasia.

(Source: Prepared by IEE)

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