

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Foreign Minister Abe's Trip to Iran and Iraq

Summary

Foreign Minister Abe's early August trip to Iran and Iraq is intended to strengthen Japan's relations with both countries. A successful trip should also bolster Abe's domestic political standing. Abe will appeal to both governments to accept a ceasefire. Japan, which is the only major Western power with an ambassador presently in both Tehran and Baghdad, is well positioned to benefit economically from the reconstruction that will follow the war.

Bilateral issues will figure importantly in both stops. Tehran will try to enlist Japanese Government cooperation in pressing the Mitsui Corporation to resume construction of the huge petrochemical project at Bandar-Khomeini, which has been suspended since the outbreak of the Iran-Iraq war; Abe will probably resist. In Baghdad, Abe will encounter the problem of growing Iraqi debts to Japanese firms.

Abe's trip will probably achieve its basic objective of strengthening Japan's relations with Iran and Iraq. But it also entails real risks. Although he is committed to trying, Abe will

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not to able to persuade the two belligerents to cease hostilities. If, on the contrary, the war intensifies during his visit, the Foreign Minister will be placed in a very delicate diplomatic position. [redacted]

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Japan has characterized its ties with Iran as a "window" on the West and a channel of communication available to the US. In addition, Tokyo clearly hopes Washington will see Abe's trip as another sign that Japan is now ready and willing to play a larger and more constructive role in international politics. [redacted]

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Foreign Minister Abe's Trip to Iran and IraqAbe's Objectives

Viewed from Tokyo, Foreign Minister Abe's trip to Iran and Iraq will serve both political and foreign policy objectives. Although not explicitly stated, Abe clearly hopes that the trip will enhance his visibility and reputation as Foreign Minister and hence his political standing with the LDP and the Japanese public at large. Abe sees himself as a future Prime Minister and has chafed in the shadow of Nakasone's active, personal involvement in diplomacy. Abe clearly hopes that a trip into the volatile Middle East, where Japan has obvious major interests, will generate media attention.

A successful visit should strengthen the image of the Nakasone Government as having a strong and active foreign policy. It should also help pave the way for a later trip by Nakasone to the Middle East. As Minister of International Trade and Industry, Nakasone visited the region (Iran, Kuwait, Saudi Arabia, and the United Arab Emirates) in 1972. He takes pride in the accomplishments of that trip--including substantial increased economic contacts--and would clearly like to do a sequel as Prime Minister.

In terms of foreign policy objectives, Abe hopes to strengthen political ties with both Tehran and Baghdad including establishing a good personal relationship with his counterparts. Tokyo is quick to point out that expanding Japanese access and influence in the Middle East serves the interests of the West generally and the United States in particular. Japan, for example, is the only major Western power to have ambassadorial relations with both Iran and Iraq. Also, Tokyo clearly hopes to benefit from the economic opportunities that will become available in both Iran and Iraq when the fighting ends.

According to the Foreign Ministry, Abe hopes to hasten that moment with direct personal appeals to the leadership in Tehran and Baghdad for an end to hostilities. Japanese officials have disavowed any mediator's role, if for no other reason than Japan presently lacks sufficient leverage with either party on this issue to be effective. Another reason is that Tokyo's previous calls for a ceasefire have been welcomed by Iraq and emphatically rejected by Iran. As long as Baghdad wants a ceasefire and Tehran does not, Japanese efforts could be viewed as having an inherently pro-Iraq bias. For this reason, Tokyo has not acted on Baghdad's urging that it take the lead in the UN and elsewhere in search of a settlement. Nonetheless, in the unlikely event Tokyo were asked by both parties to act as mediator, it would

probably do so with alacrity. [REDACTED]

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The Foreign Minister will face difficult bilateral issues in both capitals.

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Iran. Despite the excesses and turmoil of the recent past, Tokyo believes that Iran under Khomeini is beginning to exhibit growing economic strength as well as signs of political stability and moderation. Nakasone emphasized the latter at Williamsburg while urging the Western allies to make new approaches to Iran. Japanese officials also argue that Tehran should not be driven into the arms of the Soviets by Western hostility, particularly given the growing evidence of Khomeini's resistance to Soviet actions in Afghanistan and Moscow's attempted subversion of Iran through the Tudeh party. This reflects Tokyo's long held fear that continued conflict in the region will increase Soviet influence there. [REDACTED]

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According to the Foreign Ministry, Abe's principal objective in Iran will be simply to improve communication and mutual understanding with the Khomeini government. Japanese officials have characterized this process as encouraging Tehran to open its windows to the West. The presumed effect will be to bolster pragmatic, less ideological forces as the basis for political moderation. Iranian Foreign Ministry officials have encouraged this thesis in Japan by portraying the present Iranian regime as committed to peace and stability in the region and improved living standards at home. [REDACTED]

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Abe will also probably seek a better Iranian understanding of Japan-US relations and, in the process, perhaps hope to soften Tehran's views of the US. Until recently, Iranian Government statements complained that Japanese policy was controlled by the United States--a charge that Tokyo made strenuous efforts to refute. While Iranian officials now acknowledge Tokyo's independence despite its ties to Washington, their suspicions have been rekindled by Nakasone's evident determination to strengthen the US-Japan relationship. [REDACTED]

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In discussions with Abe, Iranian officials will presumably emphasize a recent theme--that the Japanese and Iranian economies are complementary and that, despite major differences in their political systems and outlooks, both are Asian countries that have much in common, including the experience of being manipulated by a superpower. As the Iranian Foreign Minister put it recently, "We wish to have economic and trading ties with those countries which do not intend to dominate Iran. We think Japan is one of those countries." Iranian officials can be expected to press Abe with the argument that there is a clear

potential for greatly expanded trade and investment that is not being realized--largely because of Japan's failure to complete the massive Iran Japan Petroleum Company plant at Bandar-Khomeini. [redacted]

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Signed in 1971, the agreement between the Mitsui Corporation and the Iranian Government is the largest single Japanese project in the Middle East. With the project 85 percent complete, the outbreak of the Iran-Iraq war halted construction in September 1980. Mitsui is convinced that the plant has become uneconomical because of the changing oil market and rising repair and construction costs. Mitsui had been prepared to write off its investment as a total loss and try to collect from MITI's overseas investment insurance fund. [redacted]

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The Iranian Government, on the other hand, is determined to see the project through. After initial attempts to coerce Mitsui failed, Teheran offered to guarantee the profitability of the project and to cover all additional construction costs if Mitsui would resume work. Mitsui would not have to invest further in the project and would receive interest payments on outstanding loans. Tentative agreement has been reached on these terms. Unresolved is the question of when, or whether, Mitsui would receive a repayment of its \$328 million equity investment and when construction actually will be resumed. Baghdad has declared the plant site to be in the war zone and has warned Japan it will be attacked if work resumes. Mitsui refuses to send a permanent construction team to the site while the possibility of an attack exists. Tehran, in return for its concessions, insists upon an early resumption of work. [redacted]

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Iran has made repeated attempts to persuade the Japanese Government to put pressure on Mitsui. Tokyo has responded that while it hopes an amicable solution can be reached and construction resumed it cannot dictate to a private corporation. The Japanese Government does have a financial stake in the outcome because of its loans to Mitsui and its overseas investment insurance and a political stake because Tehran has made the project the test of Tokyo's intentions toward Iran. In the likely event that a final agreement has not been reached between Mitsui and Tehran before his arrival, Abe could find the project to be the most difficult problem of the trip. [redacted]

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Two other noteworthy issues that Abe will face in Iran concern oil imports and technical assistance. In the past three years, negotiations between Tehran and the Japanese trading companies over the volume and price of Iranian oil exports to Japan have been difficult and at times acrimonious. In 1980-81 Iranian oil exports to Japan fell to a fraction of their former level because of Tokyo's reaction to the taking of the American hostages, efforts to diversify its suppliers, and, most

important, high Iranian prices. Within the past few weeks, however, contracts have been signed that point to a significant increase in imports from Iran this year--perhaps 350,000 b/d compared with 240,000 b/d in 1982. Tehran will likely press Abe to persuade the trading companies to further accelerate purchases. [redacted]

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[redacted] Abe will almost certainly encounter Iranian insistence that technical assistance be rapidly expanded, including the reopening of the Japanese International Cooperation Agency office closed during the revolution. [redacted]

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Iraq. In certain respects, Tokyo sees Iraq much the same way it does Iran--as a major oil supplier and market for Japanese exports. But while Tehran has been able to maintain a substantial volume of oil exports, Baghdad has not. The effect is evident in Iraq's desperate shortage of foreign exchange and its dependence on economic assistance from the Persian Gulf states. For Japan, the most important consequence is that Iraq cannot pay, either for current imports or past debts. As one of Iraq's principal creditors and suppliers Japan has a major stake in Baghdad's current difficulties. And Iraq has looked to Japan with increasing urgency for economic assistance and for deferred payments for imports. [redacted]

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Japanese firms are heavily engaged in construction projects in Iraq. At present these firms have approximately thirty-five such projects, involving several thousand Japanese workers. They face the dilemma of whether to suspend operations if payments are not met, or whether to continue work on the assumption that Iraq will eventually be able to meet its obligations. [redacted]

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The debt issue is technically between Japanese private firms and the Iraqi Government. However, Tokyo is involved because of the effect this growing problem has on Japan-Iraq relations generally, and more specifically because of a credit line to Iraq begun by Japan in 1974. Only one fourth of the total \$2.0 billion in credits has been drawn and the 9 year term of the original loan expires August 15 of this year. Iraq has asked for an extension, hoping to use it to pay Baghdad's debts to Japanese construction companies. The Japanese Ministry of Finance has vetoed these requests because the credits were only for agreed on

projects and the original interest rate is now below OECD guidelines. The Ministry of Foreign Affairs has sent a special envoy to Iraq to seek a way out of this impasse before Abe arrives. [redacted]

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[redacted] Also, late press reports indicate Abe will offer a five year extension on the official credit line. [redacted]

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[redacted]

Abe will probably raise the issue of Iraqi threats to attack the Bandar-Khomeini project; Tokyo has already filed a strong official protest. He may also cite the threat of a possible new Iraqi attack against the Kharg Island oil terminal complex used by Japanese tankers. Press reports of the recent Iraqi purchase of Exocet missiles from France has generated new fears for the safety of foreign shippers at Kharg Island. [redacted]

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Prospects

Although Tokyo, Tehran, and Baghdad all have an interest in Abe's success, the trip is not without risks. There is little prospect that Abe can achieve any progress toward a cessation of hostilities. Japan lacks sufficient leverage and Iran is, by all indications, determined to pursue a military outcome. In fact, during Abe's visit, the scale of fighting may escalate with new Iranian attacks along the northern portion of the front. Heavy fighting while he is in the region could embarrass Abe by highlighting the limits of Japan's influence and by possibly creating a situation where the Foreign Minister would appear to be favoring one side or the other. [redacted]

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In Iran, the added danger is that Tehran will press hard in public for Abe's support of its position on the petrochemical project--something Abe will probably be unwilling to do. In Iraq, the credits question may provoke similar public disagreement. Abe, who clearly wants publicity out of this trip, faces the real possibility that he will get the wrong kind. [redacted]

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On balance, however, the visit is more likely to prove a plus rather than a minus. Both Tehran and Baghdad attach great importance to their economic relationship with Tokyo and both hope to gain tangible benefits from Abe's visit. The continuing

softness in international oil markets puts both Iran and Iraq in the position of needing Japan. At least for the moment Abe's trip should highlight Japan's unique access to both of the belligerents and could pave the way for an even larger Japanese economic presence in both countries once the war ends. [REDACTED]



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