The petroleum factor in 
Sino–Japanese relations: 
beyond energy cooperation

Xuanli Liao

Abstract
China and Japan used to have good energy cooperation before China switched into a net oil importer in the mid-1990s, but the recent years have witnessed an increasingly intensive competition between the two countries over petroleum supplies. While many saw such competition as inevitable with China’s growing energy demands, the paper argues that the energy relationship between the two countries was never separated from political and strategic concerns, and heavily affected by the concern of ‘relative gains’, as suggested by the neorealists. Like the case prior to the mid-1990s when the non-energy factors underpinned the Sino–Japanese energy cooperation, the key factors that prevented the two from continuing energy cooperation today also lay in political and strategic aspects. Being two regional powers in East Asia, China, and Japan need to recognize the fact that their lack of energy cooperation due to mutual political distrust will not only impair their own energy security, but may also have negative implications on regional-stability.

1 Introduction
Sino–Japanese relations have experienced various changes in the past three decades with energy playing a significant role in the process. Contrasted with their stable economic relationship, energy cooperation between China and Japan deteriorated enormously following China’s switch to a net oil importer in the mid-1990s. The intensified Sino–Japanese competition over
energy supply could be seen from their recent competition over the Russian oil pipelines and the dispute over the East China Sea gas exploration. However, the energy factor alone cannot dominate all the explanations in both cases, and political and strategic concerns should be given great attention to understand the complexity in the relationship.

There have been several research works regarding East Asian energy politics published in the past decade (Paik, 1995, 2003; Paik and Lan, 1998; Andrews-Speed et al., 2002), but none of them focused on the Sino–Japanese energy politics. The ASEAN +3 Forum\(^1\) was established in 2002 with an attempt to promote East Asian regional energy cooperation, but China and Japan were not given specific emphasis, despite their significant role to the success of such cooperation. This paper aims to bridge the gaps in academic field by analyzing the role of petroleum in Sino–Japanese relations over the past thirty years. The questions to be discussed include

(i) What was the basis for Sino–Japanese energy cooperation in the past?
(ii) What are the problems for Sino–Japanese energy cooperation under the new circumstances?
(iii) What are the implications of the increasing energy competition between China and Japan?

The discussion below contains four parts of analysis. First, the paper conducts a brief review of cooperation theories to build up an analytical framework for the paper. It then analyzes the Sino–Japanese energy cooperation before the mid-1990s, in order to reveal the nature of this cooperation and the underpinning factors. An investigation will follow regarding the changes occurred from the mid-1990s and the implications to the bilateral energy relationship, with support of two recent cases of Sino–Japanese energy competition. The conclusion anticipates possible scenarios of Sino–Japanese energy cooperation in the foreseeable future.

2 Cooperation theories and Sino–Japanese energy cooperation

There are different theories on international cooperation based on different beliefs, with different explanations of possibility, motivation, levels, and means.

The traditional realist approach, based on the belief of an anarchical world with no central authority to enforce cooperation, views interdependence as a relationship of dominance-dependence, which will not necessarily lead to

\(^1\) ASEAN refers to the Association of Southeast Asian Nations with ten member states: Indonesia, Malaysia, Vietnam, Brunei, Philippines, Thailand, Singapore, Kampuchea, Laos, and Myanmar. The ‘3’ refers to China, Japan, and South Korea.
cooperation. Instead, as the dependent party is ‘particularly vulnerable to the choices of the dominant party’, the realists suggest that it is better for a state to minimize its dependence if it cannot be totally independent (Viotti and Kauppi, 1999). The realists admit the possibility of cooperation but regard it basically as ‘non-altruistic cooperation’ which ‘can only take place in situations that contain a mixture of conflicting and complementary interests’. In such situations, cooperation occurs when ‘actors adjust their behaviour to the actual or anticipated preferences of others’ (Axelrod and Keohane, 1985). Game theory is a typical example derived from the realist belief though it does not form the focus of this paper.

Though shared with the realist state-centric position, the neorealists believe a better chance for international cooperation by putting more emphasis on economic factors than purely political power, as held by Stephen Krasner, ‘relative power capabilities are not the only state objective; economic wealth, for instance, could be an end in itself’ (Krasner, 1982a,b). But they also see cooperation being conditional because states are concerned not only about the increase of their own power or wealth (‘absolute gains’), but also more about how much this increase is relative to other states (‘relative gains’) in an anarchic world (Waltz, 1959). The neorealisits recognize the role of international regimes in facilitating international cooperation, but insist that ‘self-interest’ of the states is the major force behind the regimes. Arthur Stein, for instance, argues that the conceptualization of regimes ‘suggests that the same forces of autonomously calculated self-interest that lie at the root of the anarchical international system also lay the foundation for international regimes as a form of international order’ (Stein, 1993).

In contrast to the realist thinking, the liberals regard interdependence as the key in explaining world politics. They believe interdependence has benign implications and view it as a relationship that is worth seeking. Unlike the realists who took the state as a united actor, the liberals see the state ‘a representative institution’ of different social actors, and the government policy is ‘constrained by the underlying identities, interests, and power of individuals and groups who constantly pressure the central decision makers to pursue policies consistent with their preferences’. In international stage, the state behavior is not only decided by ‘the nature of state institutions, alongside societal interests themselves’, but is also ‘under varying constraints imposed by the preferences of other states’. Therefore, the liberal theory believes that ‘the pattern of interdependent state preferences imposes a biding constraint on state behaviour’ (Moravcsik, 1997).

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2 Game theory explains cooperation on the basis of realist assumption of an anarchy world. The strongest point of game theory is on revealing the conditions which enable cooperation and stability without regimes. The most often quoted games include ‘Prisoner’s Dilemma’, ‘Stag Hunt’, and ‘Chicken’. For more details, please refer to Oye (1985).
While admitting the realist arguments that states are the principle actors in world affairs and they behave on their own interests, the neoliberals claim that the opportunity for international cooperation is better than realism assumes. First, they emphasize ‘mutual interests’ between states. Keohane argues that the neoliberal perspective ‘is relevant to an international system only if the actors have some mutual interests; that is, they must potentially gain from their cooperation’. If there is a lack of mutual interest, the neoliberal thinking ‘would considerably overlap with those of neorealism’ (Keohane, 1989). Second, the neoliberals recognize the possibility that states’ interests in relative gains will make cooperation more difficult, they however believe that the concern of ‘relative gains’ only matters ‘when gains in one period alter power relations in another, and when there is some likelihood that subsequent advantages in power may be used against oneself’ (Keohane, 1993). Besides, the number of actors can also affect the impact of relative gains; namely, the increase of the actors will lead to a decline of concerns of relative gains (Snidal, 1991). Finally, the neoliberals believe that international regimes can help the self-interested states to cooperate ‘when opportunities for joint gains through cooperation are substantial’, because ‘states’ obsessions with relative gains will diminish’ (Keohane, 1993).

In reviewing the Sino–Japanese energy relations from the mid-1970s to recent years, the neorealist approach seems applicable for analysis. The two countries had close energy cooperation before the mid-1990s underpinning by strategic concerns and economic interests. When China joined the line of net oil importers in 1993, the Sino–Japanese energy cooperation deteriorated partly due to their competition over energy supplies, and partly due to the increasing political distrust between the two nations. The notion of ‘relative gains’ – meaning comparative benefits China and Japan could gain from the cooperation – might offer part of the reasons, but the more important factors have to be found from political aspects than pure economic concerns.

The following analysis will address four factors that affected Sino–Japanese energy cooperation: (i) the approaches China and Japan take on energy security, (ii) the two countries’ comparative economic potential, (iii) the cold war and bilateral political and strategic concerns, and (iv) China’s changing status in oil needs. By examining the role of these factors in Sino–Japanese energy cooperation, with petroleum being the focus of analysis, one will be able to see what made the cooperation possible before the mid-1990s, and what major obstacles stand in the way of such cooperation today.

3 There are different definitions on ‘regimes’, and the most widely used is provided by Stephen Krasner, who defines regimes ‘as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations’ (Krasner, 1982b, p. 186).
3 Sino–Japanese energy cooperation prior to the mid-1990s

Sino–Japanese energy cooperation between the mid-1970s and mid-1990s was an important component in developing the bilateral relations, and it could be partly explained as a relationship of mutual ‘interdependence’. Being a net oil exporter in the 1970s, China had little concern over the energy security and was thus happy to supply crude oil to Japan in exchange for advanced technologies. The Chinese oil exports helped Japan diversify the sources of supply, and it also facilitated Japan’s access to the Chinese markets. Strategically, the Soviet threats confronted by China and Japan at the time formed a strong basis for their political ‘interdependence’. The two governments then allied with the United States against the former Soviet Union, and the political trust between the two leaderships had also helped promoting a policy of ‘generational friendship’ (shidai youhao) in the two nations until the late 1980s. In general, the close Sino–Japanese oil cooperation before the mid-1990s was facilitated by three main factors: their uncompetitive relationship over oil supplies, the huge gaps in their economic development levels, and their shared strategic interests and political trust.

3.1 Oil cooperation between China and Japan since the 1970s

China started exporting oil to Japan in 1973, and the exports became more substantial from 1975 and continued until today. Being a resource-scarce country, Japan has relied heavily on oil imports for its economic development, especially since World War II (WWII). The imported oil accounted for 46 percent of Japan’s total oil consumption in 1960, and it rose to 90 percent in 1973, with the Middle East being the primary source of supply (77.5 percent in 1973) [Petroleum Association of Japan (PAJ), 2002]. Prior to 1973, Japan held three principles in securing its energy supply: at the lowest possible cost, with stable supply in volume, and to maintain autonomy from the international oil majors (Koyama, 2001). The first oil crisis, however, made the Japanese worrying more about the shortage of oil supply based on a belief that there would be a long-term declining trend of the reserve/production (R/P) ratio for oil. The Japanese government then took strategic approaches to ensure the supply of oil – a ‘strategic commodity’ – with three emphases: to ensure a stable supply of volume, to reduce independence on oil imports, and to increase oil stockpiles within the IEA framework (Koyama, 2001).

In 1967 a government oil company ‘the Japan National Oil Corporation’ (JNOC) was established, to help stabilize Japan’s oil supply and diversification of the supplying sources. The JNOC was believed to have two possible functions. One was to provide funding for Japanese overseas oil explorations,
in order to have 30 percent of oil supplied by Japanese companies. This objective seemed unsuccessful since the Japanese oil companies supplied only 10 percent of Japan’s total oil consumption by 2000. The other task of the JNOC was to build a national strategic oil stockpile, which was done very well. Starting the duty in 1978, the JNOC managed to build a government oil stockpile for eighty-five days of its oil imports in 2001 (PAJ, 2002), making Japan’s the highest among the IEA countries.

Japan also tried to diversify its oil supply from the former Soviet Union (USSR) in the mid-1960s, with special interests in the Tyumen project, which involved building a 7,800 km oil pipeline from Tyumen in West Siberia to Nakhodka in the Pacific coast, to provide 25–40 million tons (mts) of oil to Japan annually for twenty years with Japan providing US$1 billion bank loan. But Japan later abandoned the project in 1975 for both economic and strategic concerns (Russell, 1976; Jain, 1981; Li, 2000). Probably due to the failure of the Tyumen project, Japan had to increase its oil imports from Indonesia, China, and Brunei immediately after the first oil crisis. These oil supplies, especially those from China, were significant to Japan for at least two reasons. They could help Japan to diversify its sources of oil supply and thus reduce Japan’s strategic vulnerability caused by over-reliance on the Middle East crude oil, and could also provide China with necessary capital for its modernization program and enable Japan a better access to the Chinese market (Jain, 1981; Song and Li, 1995).

It was said that the nature of the Chinese crude oil was not very attractive to the Japanese refining companies, as it was high in both wax (35% by weight) and ‘heavy-oil factor’ (70–74 percent) compared with that of the Arabian crude (2.8 percent and 48 percent, respectively), and thus required extensive refinement (Liu, 1978). Yet three factors seemed to have facilitated the oil imports from China. One was to maintain bilateral trade balance, which was especially preferred by some Japanese industries that wished to expand influence in China. The head of the Nippon Steel Yoshihiro Inayama, for example, was one of those who played a significant role in helping with the oil deals. He was thus rewarded by the Chinese government with major contracts for the famous Baoshan Steel Complex construction in the late 1970s (Awanojarha, 1978). The second reason was relevant to the Japanese–Soviet territorial disputes over the Kurile Islands (the Northern Territories referred by Japan).4 Since China and the USSR also had disputes over their border areas at the time, Russell argued that so long as it remained the case, ‘the Japanese will always have China’s political support, in theory’

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4 These Islands used to be owned by Russia in the eighteenth century, inherited by Japan in 1875 in exchange for ceding Sakhalin to Russia, and reclaimed by the Soviets at the end of WWII. Yet the Japanese insisted ever since on returning of the southernmost four islands: Etorofu, Kunashiri, Shikotan, and the Habomai.
for their demands for the return of the Islands (Russell, 1976, p. 169). The third factor was believed to be based on historical concerns, namely, to provide economic aid to China as a compensation for Japan’s ‘wrong-doing’ during WWII.5

The oil exports to Japan were also beneficial to Beijing’s interests for three main reasons. First, it could prevent possible oil cooperation between Japan and the USSR, and then support the Sino–Japanese ‘united front’ against the latter. Before Japan decided to abandon the Tyumen project, China was seriously concerned about the possible implications of their cooperation, which might ‘strengthen the Soviet military and economic position in the Far East’ and harm the Chinese strategic interests. In order to urge Japan to stay away from the Soviets, China not only warned the Japanese about likely consequences if they were to cooperate with the Soviets, it also offered to increase oil supply to Japan gradually, from 4 mts in 1974 to 150 mts in 1978, which seemed to have significantly influenced Japan’s final decision (Russell, 1976; Jain, 1981).

Second, the oil exports helped China in introducing advanced technology from Japan to facilitate its industrial modernization program in the 1970s. The People’s Republic of China (PRC) had experienced more than two decades of isolation from the international community since its founding in 1949, and was therefore short of foreign currency for technology introduction. The famous ‘oil-for-steel’ strategy suggested by Inayama thus played a crucial role in China’s technology introduction in the late 1970s (Ishikawa, 1987). Finally, Beijing probably wished to employ the oil trade to offset Tokyo’s economic ties with Taiwan, with whom Japan had closer trade relations and greater investment.

The oil cooperation between China and Japan before the mid-1990s included oil trade and joint-oil explorations, but none of the activities was significant in energy terms. As shown in Table 1, the Chinese crude oil counted for only 5–6 percent, on average, of Japan’s total oil imports, and the figure further declined in the mid-1990s due to the fall of China’s oil outputs and its growing domestic oil demands. Table 1 also indicated the fact that Japan remained the biggest source for China’s oil exports until the mid-1990s, namely, the bilateral oil trade was more significant for China’s industrialization program than serving Japan’s interests in energy security. The bilateral cooperation on petroleum explorations between 1976 and 1992, in the Bohai Bay, continental shelf of the South China Sea, the Tarim Basin, and the Yangtze River, were equally unfruitful despite the support by the two governments and financial assistance by the Japanese government. From 1979 to 1992, the Japanese Export-Import Bank granted three

5 Meeting with Mr E. Wakiwaka, President of BP Japan, Tokyo, 5 June 2002.
special official loans to China, for the development of oil and coal resources, amounting to JPY420 billion, JPY570 billion, and JPY700 billion, respectively (H. Tian, 1994).

In spite of the limited achievements, the efforts made by the two governments in oil cooperation had, indeed, played a significant role in serving their political and economic interests. Generally speaking, there was little conflict of interest between China and Japan. Politically, despite their ideological differences, the cold war circumstances and China’s diplomatic normalization with the United States enabled China and Japan to be members of the same camp, and to share common strategic interests in confronting the Soviet threat. Economically, a huge gap of economic development existed between China and Japan made the two countries interdependent rather than competitive in economic structures, and thus had little worry about ‘relative gains’: China wanted to introduce industrial equipments from Japan for its modernization, and Japan needed China’s ample market for its industrial products. In terms of oil supply/demand, the two countries were complementary as well. Against this background, it was reasonable to conclude that political and strategic considerations had been the key factors facilitating the Sino–Japanese energy cooperation before the mid-1990s, and they also made the decades of the 1970s and 1980s the best period in the bilateral relations.

Table 1 Oil trade between China and Japan, 1981–2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Oil imports from China</th>
<th>Japan’s total oil imports</th>
<th>Percentage of Chinese oil for Japan</th>
<th>Total Chinese oil exports</th>
<th>Percentage of oil exports to Japan for China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>Japan</td>
<td>177</td>
<td>3,833</td>
<td>5</td>
<td>177</td>
<td>100</td>
</tr>
<tr>
<td>1983</td>
<td>Japan</td>
<td>186</td>
<td>3,530</td>
<td>5</td>
<td>192</td>
<td>97</td>
</tr>
<tr>
<td>1985</td>
<td>Japan</td>
<td>221</td>
<td>3,332</td>
<td>7</td>
<td>269</td>
<td>82</td>
</tr>
<tr>
<td>1987</td>
<td>Japan</td>
<td>245</td>
<td>3,100</td>
<td>8</td>
<td>316</td>
<td>77</td>
</tr>
<tr>
<td>1991</td>
<td>Japan</td>
<td>237</td>
<td>4,062</td>
<td>6</td>
<td>257</td>
<td>92</td>
</tr>
<tr>
<td>1993</td>
<td>Japan</td>
<td>247</td>
<td>4,275</td>
<td>6</td>
<td>341</td>
<td>73</td>
</tr>
<tr>
<td>1995</td>
<td>Japan</td>
<td>233</td>
<td>5,581</td>
<td>4</td>
<td>447</td>
<td>52</td>
</tr>
<tr>
<td>1997</td>
<td>Japan</td>
<td>231</td>
<td>5,735</td>
<td>4</td>
<td>506</td>
<td>46</td>
</tr>
<tr>
<td>1999</td>
<td>Japan</td>
<td>111</td>
<td>5,346</td>
<td>2</td>
<td>274</td>
<td>41</td>
</tr>
<tr>
<td>2001</td>
<td>Japan</td>
<td>85</td>
<td>5,202</td>
<td>2</td>
<td>298</td>
<td>29</td>
</tr>
<tr>
<td>2003</td>
<td>Japan</td>
<td>87</td>
<td>5,314</td>
<td>2</td>
<td>424</td>
<td>21</td>
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<table>
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<tr>
<th>Year</th>
<th>China</th>
<th>Total Chinese oil exports</th>
<th>Percentage of oil exports to Japan for China</th>
</tr>
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<tbody>
<tr>
<td>1981</td>
<td>177</td>
<td>100</td>
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<td>1983</td>
<td>192</td>
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<td>2003</td>
<td>424</td>
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*aIn selected years (kb/d).
Sources: The figures for the period of 1981–1993 were crude oil only, data adapted from World Oil Trade, 1988, 1990, and 1993; and these for the period of 1994–2003 include both crude oil and products, data adapted from the BP Statistical Review of World Energy, 1995–2004.

Xuanli Liao
4 The petroleum factor and Sino–Japanese relations in the 1990s

The 1990s witnessed a dilemma in Sino–Japanese relations. The two countries were still highly interdependent on each other economically. In 2004, the bilateral trade between China and Japan totaled 22.71 trillion yen (US$212 billion), making China number-one trade partner of Japan and Japan the third of China (Japan Times [JT], 22 April 2005). The gap between Sino–Japanese economic development was also largely narrowed in the past decade, as shown by the fact that 60 percent of products exported to Japan was made in China by Japanese companies (http://www.people.com.cn, 21 April 2005). In theory, energy cooperation could still serve both China and Japan’s interests in coping with potential oil crises and the problem of sustainable development.

Politically, China and Japan managed to maintain a close relationship for a few years following the Soviet collapse in 1991, as China faced international sanctions in the wake of the ‘June 4’ event, whilst Japan experienced growing trade conflicts with the United States. The re-identification of the United States–Japan Security Alliance in 1996 (Ministry of Foreign Affairs of Japan, 1996), however, made China and Japan as potential rivals: the two nations not only lost their common ground for strategic cooperation, but also faced growing suspicion toward each other due to the possible coverage of the Security Treaty over Taiwan.

Their dispute over the history issue and the Diaoyu/Senkaku Islands had further undermined the declining political trust. In dealing with the history issue, the two governments used to behave cautiously and both made compromise for an agreement in 1972 over their diplomatic normalization. When the ‘textbook events’ and official Yasukuni Shrine visits occurred in the mid-1980s, the two leaderships settled the problems rationally based on their political trust and the hope for long-lasting Sino–Japanese friendship. With regard to their disputes over the sovereignty of Diaoyu/Senkaku Islands, China also proposed to Japan in 1979 to shelf the issue of sovereignty and co-develop natural resources in the region (H. Tian, 1994, 1997), and both sides seemed to follow the rule ever since until the recent years.

Starting from the late 1990s, with the declining political trust between the two leaderships and deteriorating public images between the two nations, the history issue and territorial disputes played an increasingly negative role in Sino–Japanese relations. The problem became especially disturbing since Junichiro Koizumi became the Japanese Prime Minister in 2001, and his repeated visits to the Yasukuni Shrine have stopped the exchange of summit

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6 The Yasukuni Shrine enshrines 2.5 million Japanese soldiers who died in wars since the nineteenth century, including 14 Class-A war criminals from WWII. Critics say Koizumi’s high-level visits
visits between China and Japan over the past few years. The latest textbook revision\(^7\) triggered the most serious demonstrations in China since the two countries’ diplomatic normalization: demonstrations took place in a dozen of Chinese cities joined by tens of thousands of citizens, accusing Tokyo of distorting its wartime past, urging a boycott of Japanese products and calling for rejecting Japan’s permanent membership at the United Nations’ Security Council \(\text{\textit{JT}}, 11\ \text{April} 2005\). Despite the measures taken by the Chinese and Japanese governments to repair the bilateral relations afterwards, the bilateral relations reached the lowest point over the past three decade due to the history issue, together with the territorial disputes relating to gas exploration in the East China Sea, which will be discussed in details later.

As a result, when China became a net oil importer, the remaining Sino–Japanese energy cooperation weakened dramatically in the late 1990s \(\text{\textit{Dorian}, 1995}\). Although the two governments avoided admitting their rivalry in oil supplies, the recent disputes over the Russian oil pipelines and the East China Sea gas exploration have clearly indicated the Sino–Japanese competition over energy security. These cases can also prove that the petroleum factor is not only relevant to energy security, but is still closely associated with political and strategic factors.

The discussion below illustrates the problems that prevented the bilateral energy cooperation in the recent few years, by analyzing the perspectives and strategies taken by China and Japan over energy security, and the major threats they envisaged to such security. A brief case-study on two recent cases of Sino–Japanese energy competition will be conducted to help the illustration, and conclusions will be drawn accordingly to evaluate the possible future of Sino–Japanese energy relationship.

\section*{4.1 Perspectives and strategies of China and Japan on energy security}

China and Japan are believed to share many things in viewing ‘energy security’: they both regard oil as a ‘strategic commodity’ and believe that strategic measures should be taken to ensure energy supply. Although Japan has little natural resources compared with China, Japan’s efforts in the past 30 years in enhancing energy security has made it in a better position

\(^7\) The Japanese Education, Culture, Sports, Science and Technology Ministry approved a junior high school history textbook published by Fuso Publishing Inc. on 5 April 2005. It was written by a group of nationalist academics – the Japanese Society for History Textbook Reform – who claimed that other textbooks were ‘biased against Japan’. China and South Korea protested the event strongly because the revisionist textbooks were ‘distorting history’ and justifying and beautifying Japan’s imperialist past \(\text{\textit{Japan Times [JT]}, 7\ \text{April} 2005}\).
than China in handling potential energy crisis, and it also makes the two having different perspectives regarding energy security.

Being a resource-scarce nation, Japan has always taken energy security as a major concern, at least over the past century, and thus used to pursue a policy for energy security regardless the cost. With well-established mechanism in oil supply and oil future contracts, Japan’s thinking has undergone noticeable changes in recent years, and it has less worry about the traditional concerns, such as disruption of oil supply and rise in oil price. Many Japanese oil companies began to see oil as a commercial good which can be obtained mainly through the international oil markets. The Japanese government also started to revisit its past strategies and making certain reform accordingly. For instance, the long-existing Japan National Oil Corporation was turned into a public company in February 2004, the Japan Oil, Gas and Metals National Corporation (JOGMNC), to provide financial support only to the projects that have economic viability; and the scope of government financial support was also reduced to less than 50 percent compared with the previous 70 percent. Needless to say, the Japanese government still relies heavily on strategic approach to ensure its energy security, including the oil stockpile and oil diplomacy. In the long run, Japan holds the belief that China’s increasing oil demands will ultimately lead to a higher oil price, and some distinguished energy economists then wisely suggested that Japan should help China pursue a more effective policy in energy conservation and to make more investment in oil exploration (Koyama, 1996).

In contrast to the case of Japan, energy security was not a great concern to China until the recent decade. China used to rely on oil imports from the former Soviet Union in the 1950s–1960s, but due to the limited oil demand at the time (1.6 mts/year) (Kambara, 2002) and its rich coal reserves, energy security was not a major concern for the Chinese government. After the Daqing and other oil fields were developed in the early 1960s, China became self-sufficient in oil supply and remained so for nearly three decades. Only when China found itself having to rely on oil imports again in the mid-1990s, and with a much stronger economy that required more than 100 mts of oil imports by 2003 (Xinhua, 8 February 2004), did energy security become a priority in China’s economic and foreign policy agenda.

Based on international practice, oil security should not form an essential concern to China, because its domestic oil output can provide over 50 percent of the total domestic consumption. Nevertheless, viewing petroleum as ‘strategic commodity’, the Chinese government mainly took strategic measures to ensure its oil supply. The measures included to maximize domestic oil

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production in order to maintain certain self-reliance despite the high cost [Department of Communications & Energy, State Planning Commission of PRC (DCE), 1997], to encourage overseas investment of the state-owned oil companies by offering low-interest loans and favorable policies, and to employ energy diplomacy, especially along the regions of ‘energy belt’: Russia, Central Asia, and the Middle East (Andrews-Speed et al., 2002). Given its increasing energy demands and few strategic oil reserves, China perceives possible threats to oil security from almost every aspect, from possible disruption of the oil supply and rise of oil price, to sea-lanes communication and possible blockage. China’s enthusiasm for overseas oilfields investment could be partly aimed at reducing such concerns, though the real effects need further examination.

4.2 Threats to Sino–Japanese energy security and likelihood for cooperation

China and Japan share a lot in common, in theory, in securing energy supply, such as the safety of sea-lanes communication, maintaining regional stability of the Middle East, and diversifying sources of oil supply. However, the different situations facing the two nations on energy security and their political distrust made China and Japan differing greatly on identifying the main threats, which in reality reduced the possibility for bilateral energy cooperation.

To ensure the safety of sea-lane communications is one of the most important tasks for China and Japan, but they saw the threats from different aspects. To Japan the threats lay in three main aspects: China’s strengthening of the naval forces, its territorial claim over the South China Sea, and the Taiwan issue. In practical terms, Japan has few reasons to worry about the Chinese navy because it can rely largely on the US protection for the sea-lanes, and Japan’s Self Defense Forces (SDF) Fleet is also more advanced technologically than the Chinese navy (South China Monitoring Post [SCMP], 2 October 2002). What made Japan nervous appeared to be China’s intention to strengthen its navy forces, represented by the ‘theory of navy development strategy’ in the late 1980s (Kayahara, 1996). China’s purchase of Russia’s Sovremenny-class destroyers and kilo-class submarines in the past few years might have deepened such concern, over the likelihood of the Chinese control of the Pacific routes, as well as the ‘order’ in Indian Ocean (SCMP, 3 April 2003).

China’s territory disputes with the Southeast Asian countries over the South China Sea formed another concern for Japan, on the ‘rights of free navigation’ and the safety of the Malacca Strait. By the late 1990s, Japan relied heavily on the sea routes for its oil transportation from the Middle East, and the figure was believed to reach 90 percent in the twenty-first century. Japan, thus, saw peace in the area as vital and being anxious about
potential conflicts caused by the territorial disputes (Kayahara, 1996). In addition, Japan greatly worried about the Taiwan issue as well, which could be seen from the fact that the 1997 Guidelines for US-Japan Defense Cooperation included the Taiwan Strait within the scope of defense despite China’s strong opposition. In a speech made in China, the former Japanese foreign minister Yohei Kono, addressed the Taiwan issue as a matter of ‘life or death to Japan’s national interests’ (Kono, 2000). Consequently, the Japanese government seemed to deliberately remain ambiguous about Taiwan’s status, and a group of non-governmental figures who were influential in the Japanese society even publicly supported the Taiwan independence and urged the Japanese government review its policy toward the Island (Okazaki, 1998; Nakajima and Komori, 2000).

The Chinese, however, held completely different views. For instance, even with the efforts in the past couple of decades, the People’s Liberation Army (PLA) Navy was believed as lagging far behind its western partners and the Japanese SDF Fleet. China, thus, argued that it was necessary to strengthen its naval forces even only to maintain as a regional power (SCMP, 17 July 2003).

In terms of the South China Sea, the Chinese government seemed to appreciate the safety of sea-lanes communication, by treating its territorial claims in the region differently from other cases. Despite the remaining disputes and the statement passed by the National People’s Congress in 1992 (Valero, 1994), the Chinese government did sign a Code of Conduct on the South China Sea with the ASEAN on 4 November 2002, within which both sides agreed to enhance mutual trust and to seek peaceful settlement of their disputes ‘through friendly coordination and negotiation’. Beijing also expressed its willingness to help protect the Malacca Strait, as claimed by Gao Zhiguo, Director of the China Institute for Marine Affairs (China Oil & Gas Monitor [COGM], 1 July 2004). In fact, China was seriously concerned about the United States naval control over the sea-lanes through the Malacca Strait, and suggested in November 2003 to establish a Security Policy Conference to enable senior-level talks within the ASEAN Regional Forum (ARF). China’s intention to build a Pan-Asia Railway – running from Kunming in southern China, through Vietnam, Laos, Thailand, and Malaysia to Singapore – was also regarded being a possible means ‘to help China reduce its dependence on the Malacca Straits’ in petroleum transportation (Interfax, 28 August 2004).

As for the Taiwan issue, China saw it as a domestic matter involving great political and sovereignty significance. The PRC government insisted on a ‘One China’ policy and said that its strengthening of the naval forces was to primarily aim at coping with Taiwan and with ‘the prospect of US intervention in a Taiwan crisis’ (SCMP, 2 October 2002). Beijing was also concerned about potential instability in the Taiwan Strait for strategic reasons as well as the
safety of energy transportation. On 14 March 2005 the third Plenum of the
tenth Chinese National People’s Congress passed the ‘anti-secession law’,
claiming that China would ‘make all efforts to realize peaceful reunification’,
but it also insisted that ‘non-peaceful means’ could be employed in case
‘possibilities for a peaceful reunification should be completely exhausted’
(People’s Daily [PD], 14 March 2005), probably due to the complexities
involved in the Taiwan issue, especially the US factor.

Concerning the Middle East regional stability, China and Japan share
things in common as well given they heavily rely on the region for oil supply.
However, they again encounter different problems. Japan’s dealing with the
Middle East for oil supply started from the 1950s, though indirectly until the
mid-1970s. After the first oil crisis, Japan established closer relationships with
the major oil producers, by changing its stance from pro-Israel to pro-Arab.
This policy had put ‘Japan’s national interest in defiance of the US’, as held by
Ken Koyama from the IEEJ, but it enabled Japan to play a more active role in
the region. Still, Japan cannot afford to ignore the Middle East regional sta-
bility for the sake of energy supply, it thus suspended a US$2 billion deal with
Iran in developing the Azadegan oil field in September 2003 under US pres-
sure (Financial Times [FT], 26 September 2003), though the deal was resumed
in February 2004 by the Japanese Oil Exploration Company (INPEX) and the
Iranian National Oil Company. Meanwhile, Japan was ‘greatly concerned’
about China’s intention in the region in dealing with the ‘rogue countries’,
such as Iran and Iraq. The CNPC’s petroleum contracts with Iraq before the
US–Iraqi war were also criticized as ‘unfair competitions’.10

Being a newcomer to the Middle East, China only started building up dip-
plomatic links with the Middle East countries from the early 1990s. China’s
main attention in the Gulf has been to enhance energy security through eco-
nomic and diplomatic means, such as upgrading domestic refinery capacity for
Gulf oil, expanding exploration and production activities, cross-investment,
and oil diplomacy (Lewis, 2002; Xu, 2002). China’s oil strategy was fruitful as
it led to a substantial increase of oil supplies from the Gulf, especially from
Iran and Saudi Arabia (C. Tian, 2004), and its political presence in the region
has also been improved. Still, China faces serious political challenges from the
Middle East for mainly two reasons.

One was China’s neutral stance in the Israel–Palestine conflicts, which
caused dissatisfaction among the Arabic countries and prevented China
from becoming more influential. The other was China’s dealing with the
‘rogue countries’, which caused controversy in the international community
and undermined its image being a responsible power. Although the Chinese
petroleum companies attempted to make their oil dealings with Iran and Iraq

10 Meeting with Mr A. Ishii and Ms M. Sato, JNOC, 2 July 2002, Tokyo.
in a way as not to violate the sanctions pursued by the international community (Xu, 2002), it remained difficult for Beijing to convince other countries, including Japan, that the deals were harmless to the Middle East regional stability. The issue became even more problematic when China and Russia entered the bidding for Iran’s Azadegan oilfield following Japan’s suspension. When Russia urged Iran, together with the United States, European Union (EU), and Japan, to sign an additional protocol to the Non-Proliferation Treaty to allow more rigorous inspections of its nuclear facilities, China again showed no position on the issue (FT, 10 July 2003). China might have reasons for so doing, but its lack of principle in dealing with important issues like these could only deepen the belief that its ‘five principles’ ad been replaced by foreign policy pragmatism (FT, 24 February 2003).

Diversification of sources of oil supply is another issue affecting China and Japan’s energy security. Both governments chose to take strategic means handling the problem and giving specific emphasis to oil diplomacy. Prior to the ‘9/11’ event, China and Japan mainly focused on the Middle East for oil supply, but they also tried other sources for diversification. By June 2001, there were 115 Japanese oil companies dealing with overseas oil development in half of the world (PAJ, 2002), whereas the Chinese had only 40 overseas projects for oil exploration and development by May 2004. The Angarsk–Daqing oil pipeline agreement was thus regarded by China as one of the most successful cases in this regard, until it was challenged by Japan with the Angarsk–Nakhodka pipeline proposal.

It is sensible to argue that despite their shared concerns over energy security, China and Japan differed greatly over major threats and possible solutions. Factors preventing the two from energy cooperation only partly lay in economic and energy aspects, and more needs to be found from political perspective, including the post-cold war international circumstances and their political distrust. The changing great power relationship after the ‘9/11’ event further shed a delicate impact on the Sino–Japanese energy relationship. The case-studies below on recent Sino–Japanese petroleum disputes are intended to show that their competition and rivalry over energy security are, in fact, rooted in the political and strategic disparity.

4.3 Sino–Japanese disputes over the oil pipelines: Angarsk–Daqing and Angarsk–Nakhodka

The bilateral dispute over oil pipelines was about two different routes proposed by China and Japan, respectively. One was a 2,240 km line between Angarsk and Daqing signed in July 2001 as an ‘interstate agreement’, by the Chinese State Planning Committee and the China National Petroleum Corporation (CNPC) on the one hand, and the Russian energy minister, Yukos, and Transneft on the other hand. The pipeline involved an estimated
cost of US$1.7 billion, supposedly to be completed by 2005 and to provide 20–30 mts of oil annually to China by 2010. The pipeline agreement was further substantiated by the Chinese Premier Zhu Rongji two months later in Moscow, when he and his Russian counterpart Mikhail Kasyanov agreed to start a feasibility study for the project. Not until early 2003 when Japan raised the Angarsk–Nakhodka proposal, the Sino–Russian pipeline agreement was believed as a resolve shown by the two governments ‘to consolidate an energy component to their strategic partnership’ (Andrews-Speed et al., 2002).

It was also said to be relevant to Sino–Russian military cooperation, and formed a part of the bilateral ‘energy partnership’ (FEER, 6 April 2000).

The ‘9/11’ event, however, brought about considerable changes to the situation. Since the event forced the United States to shift away from its unipolar world ambition and making anti-terrorism as the primary task, a closer cooperation between the great powers against terrorism emerged soon aftermath. The changed circumstances weakened the basis of the Sino–Russian strategic partnership considerably, and they also offered Japan a good chance to compete with China for Russia’s oil supply.

The 3,800 km pipeline from Angarsk to Russia’s Pacific port Nakhodka was initially proposed by Russia’s state-owned company Transneft, in June 2001, as a means ‘to enter Asian markets’, involving an investment of US$5 billion (FSU Oil & Gas Monitor [FSU], 12 June 2001). But no detailed plans followed until Japan showed its interest in the project in late 2002 by offering financial support, and the intention was further confirmed by Prime Minister Junichiro Koizumi on his visit to Russia in January 2003, when a six-point ‘action plan’ was signed calling for cooperation in economics, energy, and international diplomacy.

Japan’s decision to support the Pacific oil pipeline project can also be analyzed from different aspects. In energy aspect, Japan worried about China’s being a ‘monopoly power to get the Siberia oil’, and thus lobbied Moscow to allow ‘the oil to be available to the wider Asia-Pacific market’. Economically, Japan saw an oil pipeline deal as a breakthrough in Japanese–Russian relations, for the Russian market remained almost ‘untapped by the Japanese’ (JT, 5 August 2003). The famous ‘Asian Premium’\(^\text{11}\) could also partially explain the offer, as Japan had to pay US$3 billion extra annually for its oil imports from the Middle East (Soga, 2004). Japan seemed also wishing to promote political relations with Russia through energy cooperation, in order to create a favorable environment to settle the bilateral territorial disputes, and to confront China’s arising political and economic potential in East Asia. Overall, Japan’s competition with China over the oil

\(^{11}\) Refers to the higher FOB prices of the Middle East crude oil applied to Asian countries relative to Western countries, for extra US$2–3 per barrel.
pipelines was not purely based on the concerns of energy security, it was rather an ‘unusually aggressive diplomatic offensive’ driven by non-energy concerns (FEER, 24 July 2004).

After two years of deliberation, the Russian government finally announced on 30 December 2004 that a pipeline from Taishet in East Siberia to Nakhodka would be constructed by the Russian state-owned company Transneft, with an estimated cost of US$16 billion. Two reasons were believed responsible for the decision. One was that the Pacific route could allow oil being supplied to a number of customers, and the other that Japan could provide financial assistance to cover the cost (FSU, 12 January 2005). To mollify the disappointed Chinese, the Russian minister for industry and energy, Viktor Khristenko, reportedly visited Beijing secretly in early January 2005, and reached an agreement on building a branch pipeline to China, which was confirmed by Premier Wen Jiabao a couple of months later at a press conference (http://www.creaders.net, 12 January 2005; PD, 15 March 2005).

In fact, Beijing was not much surprised with the Russian decision this time; instead, it turned its attention back to the Central Asia petroleum resources long before the Russian announcement. Starting from early 2003, China and Kazakhstan renewed their discussion about building a crude oil pipeline from Kazakhstan to western China, and an agreement was reached later of the year for a 3,000 km pipeline providing 50 mts/year of oil to China (FSU, 12 November 2003). It was to be built by the CNPC and Kazakhstan’s state oil company Kazmunaigaz in three sections. The first section had been completed with a capability of providing 10 mts/year of crude oil, and the third phase would be completed in 2006 to double China’s oil imports.

In the meantime, the latest development regarding the oil pipelines has shown that the Russian decision did not bring to an end of the story. On his visit to Tokyo in late April 2005, the Russian minister for industry and energy Viktor Khristenko still avoided saying which oil pipeline would be built first, and which was believed to be Russia’s tactic ‘to have China and Japan compete against each other and draw development fund from both’ (Yomiuri Shimbun [YS], 23 April 2005). It seems likely that as long as the potential problems with the Pacific pipeline, such as the uncertainty of oil reserves in East Siberia, the environmental concerns and the Russian–Japanese territorial disputes, remain unsolved, the Russian government would swing between the two options to serve its own interest.

Already, the Sino–Japanese competition over the oil pipelines has caused negative impact on the bilateral relations. In early 2004, China was allegedly thinking about stopping its oil exports to Japan, ‘due to the low price offered by Japan’. Yet a Chinese economist held that the current 3 mts/year of oil exports to Japan were ignorable compared with the Chinese domestic oil demands, so the bilateral competition over the Russian oil supplies should
be the real reason behind (http://www.creaders.net, 2 March 2004). Besides, the Sino–Japanese pipeline dispute seemed not purely a matter of lack of energy cooperation, but one of lack of political trust as explained previously. For exactly the same reason, China and Japan found themselves in a difficult position again with regard to gas exploration in the East China Sea.

4.4 Sino–Japanese dispute over the East China Sea gas exploration

The dispute between China and Japan over the East China Sea gas exploration was a more direct confrontation of the two regional powers, compared with the Russian oil pipeline case, and it also involved greater political and territorial concerns. Since the issue emerged quite recently, this paper reviews the case only briefly to support the main argument.

Looking from the surface, the matter is related to the unsettled border of exclusive economic zone (EEZ) between China and Japan. According to Articles 56 and 57 of the 1982 UN Convention on the Law of the Sea, the coastal states could have up to 200 nautical miles of EEZ, over which they enjoy ‘sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources’. Yet since the East China Sea has only 360 nautical miles at its widest point, how to define the border was a problem. The Japanese government suggested in 1982 that the principle of median line be applied, whereas the Chinese government insisted that the principle of ‘natural prolongation’ of the continental shelf be employed, which would divide the border along the Japanese Ryukyu Islands. Neither China nor Japan was able to convince the other side, but no major conflict occurred until recently regarding the exploration of natural gas in the East China Sea.

The direct cause of the gas field dispute was a report by a Japanese newspaper Tokyo Shimbun in May 2004, which claimed that the operation by a Chinese petroleum consortium in the East China Sea might harm the Japanese maritime interest, as the natural gas field was only five nautical miles west of the median line suggested by Japan (Lianhe Zaobao (Singapore) [Zaobao], 27 August 2004). The Chinese exploration in the region, in fact, started in the early 1980s and led to the finding of a number of fields with natural gas reserves. On 19 August 2003, two leading Chinese oil companies, China Petroleum & Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC) (each holding 30 percent stakes), signed five contracts with Royal Dutch Shell and Unocal Corp (each to hold 20 percent stakes) to explore three blocks and develop two offshore gas fields in the Xihu Trough, covering 22,200 km², 500 km southeast of Shanghai (Reuters, 19 August 2003).

Observing a likely ‘violation of Japan’s exclusive economic zone’, the Japanese government formally complained to Beijing and asked it to provide
relevant data of the gas fields in June 2004. But Beijing refused the request as it did not recognize the EEZ boundary made by Tokyo. At a meeting in Qingdao on 22 June, the Chinese Foreign Minister Li Zhaoxing suggested to his Japanese counterpart Yoriko Kawaguchi that the two countries jointly explore the area, but the latter rejected the idea and again pressed for the drilling data (Gas Matters Today [GMT], 7 July 2004). On the same day in Tokyo, the Japanese minister of economy, trade and industry (METI) Shoichi Nakagawa claimed that, ‘What is important at the moment is to know on which side of the intermediate line resources exist. There is no plan to consider such a project.’ Nakagawa also confirmed the existence of a Chinese gas project complex by an aerial inspection, and announced that Japan would send ships ‘to conduct research on the Japanese side of the area’, to prevent possible Chinese ‘infringe on its resources’ (Washington Times [WT], 30 June 2004).

The two governments seemed not to want the issue causing new problems. When the Chinese State Commissioner Tang Jiaxuan met with Kawaguchi in September, they both wished that the problem be settled properly and the East China Sea could be ‘a Sea for friendship’. China also sent former vice-foreign minister Wang Yi, an ‘old Japan hand’, as the new ambassador to Japan, hoping that the bilateral relationship that had been undermined by political and economic friction would show a favorable turn (PD, 13 and 15 September 2004). On 25 October, the two governments further held a business talk in Beijing about the issue based on the Chinese initiation, though the 10 h meeting ended up with little result as both insisted on their own positions. Observers believed that settlement of the issue might have to involve international agencies, but the United Nations said that it would not decide on offshore territorial claims until 2009 (Herald of International Tribune [HIT], 2 November 2004; JT, 21 April 2005).

The sudden withdrawal of Shell and Unocal in September 2004 was another interesting matter to understand the dispute. The withdrawal was claimed for ‘commercial reasons’, but a report by the Mainichi Shimbun held that the oil majors were told by Japan via Washington that ‘their investment would be risky as the planned gas field was located in an area disputed’ (1 October 2004). No confirmation was made by either the Japanese or US authorities regarding the report, but it was logical to assume that the ongoing territorial dispute between China and Japan was part of the reasons.

After a few months of confrontation over the East China Sea gas exploration, the Chinese insisted on its unilateral activities while the Japanese threatened to grant concessions to private companies to extract natural gas in the area – the two governments began to take measures to calm the current situation. On 20 April, the Chinese government made its most emphatic appeal to the public to end anti-Japanese demonstrations, and a number of
government officials and international relations specialists also urged 'rational' patriotism and a comprehensive evaluation on Sino–Japanese relations (PD, 20–25 April 2005).

In the meantime, Prime Minister Koizumi expressed ‘deep remorse’ and ‘heartfelt apology’ for Japan’s past ‘colonial rule and aggression’, at an Asia–Africa summit meeting in Jakarta on 22 April, which enabled his meeting with Chinese President Hu Jintao on the next day to confirm the importance of the bilateral relationship (JT, 23–24 April 2005). Japanese vice-foreign minister Shotaro Yachi was also reported to have that Japan was considering joint development not only in the disputed area ‘but in the whole East China Sea itself’ (FT, 15 April 2005). Despite the tough position held by the METI, who insisted on issuing drilling permits to private companies, the Bloomberg report has confirmed that the Japanese and Chinese governments will hold talks in May about gas drilling in the East China Sea, though the date and venue for the talks have yet to be decided (25 April 2005).

5 Conclusions

The above analysis suggests that the Sino–Japanese energy relationship has always been closely influenced by political and strategic factors, and can be largely explained by the neorealist thinking which addressed interdependence and relative gains.

The circumstances that enabled close energy cooperation between China and Japan, prior to the mid-1900s, were that they were not only interdependent on energy and economic fields but also shared common strategic concerns. The huge gaps in their economic development at the time had prevented the ‘relative gains’ factor from affecting such cooperation, and their complementary status, being an oil supplier and importer respectively, had also facilitated the cooperation. Nonetheless, China’s switch to a net oil importer in the mid-1990s and its growing economic potential not only turned China and Japan into competitors over oil supplies, but also rendered cooperation between the two countries less likely because of their increasing concerns over the ‘relative gains’. Economically, despite the remaining interdependence, the gap between China and Japan’s economic development was largely narrowed; the concerns of ‘relative gains’ thus became an issue in the bilateral cooperation. In energy aspect, China’s switch to a net oil importer turned the two into competitors in the international oil markets, and reduced chances for joint-explorations of petroleum resources. Strategically, the end of the cold war not only weakened their shared strategic and political interests, but also posed China as one of the major threats in Japan’s security agenda. As a result, China and Japan chose to compete, rather than to cooperate, in securing their petroleum supply.
One of the possible means to bring China and Japan together seems to lie in the existing international regimes. Yet the International Energy Agency (IEA) cannot help much as China is not a member, let alone the fact that the IEA has little arbitration capacity. There are a few international regimes in East Asia for energy cooperation of which China is a member, including the ASEAN plus 3, the Northeast Asian Petroleum Forum (NAPF) involving energy research institutes in three countries (China, Korea, and Japan), and the Symposium on Pacific Energy Cooperation (SPEC), which is supported by the Japanese government and holds annual meetings with the relevant countries. However, given the realist/neorealist thinking held by China and Japan, none of these regimes has been able to play a significant part.

More importantly, the two powers need to create a more positive political atmosphere and promoting bilateral political trust. It could be a hard task for China and Japan to do so under their current confrontation, but their cooperation, rather than rivalry, will be essential not only to the development of the bilateral relationship, but also to regional stability and energy cooperation in East Asia. Unless China and Japan both make good efforts to face up the complex, and realizing cooperation and competition coexist in their energy relationship, the world might see an energy cold war between the two great powers in East Asia in the foreseeable future.

The cold war ideology seems to still remain influential in both China and Japan despite the disappearance of the hostile camps, which has allowed the petroleum security involving far more political concerns than it deserves to. In fact, the experiences of the EU have been highly admired by scholars and politicians in Asian countries, as a role model to promote international political relationship through energy cooperation. Yet the EU experience was not simply a process of ‘cooperation’ that had little to do with state sovereignty, but rather one of ‘integration’ that achieved through the ‘spill-over’ effect and required partial transfer of the sovereignty, more than what was advocated by the neoliberalist cooperation approach. Indeed, when the European Coal and Steel Community (ECSC) was first established in 1951, it was designed to be supranational in nature to allow the two old enemies – France and Germany – to cooperate with their energy problems (Harrop, 1989). Today’s European Union was developed on this basis, being underpinned by strong political trust among the major powers – France, Germany, and Britain – and it also required partial transfer of sovereignty to the member states.

For countries in East Asia, especially China and Japan, there is a long way to go to establish anything resembling the EU model, including the proposal on East Asian Community. However, as the first step, China and Japan

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12 The term ‘East Asian Community’ was raised by Japanese former Prime Minister Yasuhiro Nakasone in May 2004, based on the ASEAN + 3 framework, and has drawn great attention from politicians and academics in the region.
should resume their energy cooperation through political trust-building. The main challenge facing Japan is to face its history correctly with courage and sincerity, like what Germany has done, to gain respect and trust from its neighboring countries and the world. If Japan can follow the German case, China should welcome a politically stronger Japan in the international stage and work with Japan in maintaining regional peace and stability. In brief, unless China and Japan are both prepared to take new thinking and ready to cooperate, the EU experience would never be applicable to Asia, and the regional stability might always be dominated by power politics.

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