The Sino-Japanese Quest for Energy Resources

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Abstract

As both China’s and Japan’s dependence ratios on oil imports increase steadily, there is rising concern that bottlenecks in oil supply and high prices may constrain economic growth. Currently, 99% of Japan’s oil demand has to be covered by imports while China is forced to import 40% of its oil consumption. And these figures are rising rapidly. This situation may trigger potential conflicts between the two countries as they compete for natural gas deposits in the East China Sea, stakes in the oil-producing countries worldwide, and oil pipeline projects in the Russian Far East. Taking a realist perspective, this paper seeks to answer the question as to whether energy competition between these two long-term rivals will necessarily lead to outright conflict or whether economic interdependencies will make temporary strategic alliances possible. To approach this issue, the author will first introduce the profiles of the energy sectors in China and Japan followed by an analysis of three flashpoints, namely, the deposits in the East China Sea, the pipelines in the Far East, and the stakes in exporting countries. Finally, based on the findings, an assessment of future developments will be given.

I. Introduction

East Asia has become a major driver in world energy markets largely due to China’s significant growth in demand. As the gap between consumption and production levels expands, China and Japan appear to be increasingly anxious about their energy security. 2 China oil reserve is slowly moving towards depletion. It now depends on imports for more than 40% of its reserve and the dependence ratio is continuously rising. 3 Japan relies on imports for most all of its oil, of which nearly 90% comes

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from the Middle East. Despite having sufficient oil reserves for 170 days of supply, Japan does not feel secure in the long-term because of China’s rising demand.\(^4\) Worst still, when northeastern Japan was hit by a magnitude 9.0 earthquake and 7-metre tsunami on March 11, 2011, Japan’s power generation, and energy plans suffered the hardest blow.\(^5\) In the past decade, there were fierce energy competitions between Chinese and Japanese. Following their rivalry over the Russian oil pipelines, both countries have entered into a further dispute over gas exploration in the East China Sea. Though a series of bilateral diplomatic negotiations has been held, no concrete solutions have been reached.

This paper aims to see whether the rapid growth in China’s energy demand is likely to aggravate the Beijing-Tokyo rivalry. Or on the contrary, can they gradually ameliorate antagonism as mutual complementarities? Thus, the following sections first analyze the profiles of country energy sectors and the energy policy of two countries. The paper then concentrates on the arena of prospective bilateral confrontation over energy in critical areas, such as oil exploration in the East China Sea, competition over pipelines in the Russia Far East, and oil competition worldwide. Finally, it concludes by commenting on the future development of competition between China and Japan over energy resources.

II. Profiles of Energy Sectors between China and Japan

Japan and China had a long history of energy cooperation in the past. China began exporting oil to Japan in 1974.\(^6\) By the end of 1990s, China was exporting $1 billion of oil annually to Japan—representing over half of China’s worldwide oil exports, and 7.2% of Japanese total oil imports. China oil exports to Japan provided foreign exchange and access to Japanese high technology.\(^7\) However, China’s longstanding


global oil trade surplus reached a deficit in 1993, and its oil consumption surpassed Japan’s in 2002. Since then, the two rivals have actively proposed their own energy security policies and sought their own energy resources in the world market. Hence, the current energy status and policies, and the impact of devastated earthquake in 2011 on Japan energy policies will be looked at.

1. China’s Energy Situation

In line with its rapid economic growth China’s energy portfolio has changed dramatically in the past two decades. China surpassed Japan in 2003 to become the world’s second largest oil consuming country after the U.S. According to World Energy Outlook 2006 published by the International Energy Agency (IEA), China’s oil demands will exceed that of North America in the 2020s, and will account for 20% of the world’s total in 2030. Its rapid economic growth and urbanization have been paralleled by rising energy consumption at home. China faces a dilemma as its domestic reserves of oil and natural gas will be depleted within two decades at the current rate of extraction. China again set a record with huge year-over-year increases in oil demand in 2010. For example, oil demand in February rose to 19.4 percent more than over the previous year.

In the face of growing energy demands, the China State Council Information Office published its first white paper on energy: China’s Energy Conditions and Policies on December 26, 2007. The energy white paper lays out China’s strategy of energy development. It emphasizes the promotion of energy conservation programs, acceleration of energy technology development, coordination of energy and environment development, and enhancement of international cooperation. In a nutshell, China’s energy development is to achieve the goal of “relying on domestic

resources and opening to the outside world.” The measures of China’s future energy policies can be seen as follows:\(^{13}\)

1) The government will continue to promote energy conservation policy by encouraging local governments, businesses, and individuals to abide by their respective energy conservation roles in order to alleviate the energy shortage pressure.

2) The Chinese energy related organizations will continue to explore new energy sources and implement “coal-electricity-transport integrated management” in the hope of improving energy efficiency.

3) China will increase crude oil and natural gas productions by increasing output in major oil and gas basins, as well as exploring new oil and gas fields.

4) China is promoting renewable energy and setting the two goals of reaching 10 percent of renewable energy consumption by 2010 and 15 percent by 2020.

China has emerged as one of the world’s leading producers of energy from renewable resources. The State Department and local governments have devoted decades of effort to develop its hydropower industry, including the construction of the Three Gorges Dam, the largest dam in the world. Hydropower now generates over 16 percent of the electricity used in China. Besides the development of hydropower, China has developed renewable energy technologies using solar and wind. In solar power technology, China has made a significant progress in the manufacture of solar photovoltaic technology. As for wind power technology, China has increased its investment in wind power in recent years. Twenty-five companies were estimated to produce wind turbines in 2007, and the number of producers grew over 100 by 2009.\(^{14}\) Although a qualitative gap has long existed between Chinese and foreign solar and wind power equipment, Chinese producers are narrowing that gap.\(^{15}\)

China now depends on the Middle East for about 50% of its entire energy imports. To dilute its heavy energy reliance in this war-prone region, China has


\(^{15}\) Ibid., p.89.
increasingly sought energy supply elsewhere, particularly in focusing on how to strengthen ties with countries such as Cuba, Venezuela, Myanmar, North Korea, Angola, and Sudan. For example, Cuba agreed to let China explore its coastal oilfields. Venezuela offered Chinese firms operating rights to oilfields. China and Myanmar are planning to build an oil pipeline running across Myanmar to Kunming. Beijing also signed an agreement with Pyongyang to jointly develop offshore oil reserves, and has sought its energy resource from African countries. It has won oil interests off the coast of Angola and imported oil in Sudan despite the international uproar over the Darfur crisis. In total, China now procures one third of its oil imports from Africa. Seeking oil resources worldwide is not the only target on China’s energy wish-list. China also plans to increase its consumption of natural gas. In 2009, its liquefied gas imports rose by two-thirds.

In sum, one of the top priorities in China’s energy strategy is energy conservation given that the government foresees an upsurge in energy demand given its rapid economic growth. In addition to energy conservation, the other primary agendas for energy security policy include multiplication of energy supply routes, diversification of energy resources, consolidation of strategic oil stockpiles, and promotion of environmentally-friendly energy technologies.

2. Japan’s Energy Situation

For decades, Japan had the region’s largest manufacturing base to become a major energy consumer in Asia that depended on external sources to keep its economy running. Japan’s oil supplies depended on the Middle East—particularly Saudi Arabia, the United Arab Emirates, and Iran—for 86% of its total imports. After the Arab oil embargo in 1973, Japan embarked on a campaign of diversifying suppliers, securing a strategic reserve, and researching alternative sources. By 2005 China’s oil demand exceeded that of Japan, and this trend is expected to grow by two-fold in 2020. If this trend is fulfilled, Japan will face a crowded field of

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competitors for resources. Thus, Japan’s energy security position has become more precarious because of China rising energy demands and debates over the energy security strategy in Japan have expectedly moved up the political agenda.

Japan’s energy security policy has been dominated by two competing groups intent on overcoming its energy vulnerabilities—“energy internationalists” and “energy autonomists.” The former acknowledges that Japan should continue to engage in energy-related international trade. They have been among the primary backers to remove the heavy regulations. The latter argues that Japan is better off if the government works closely with industry to secure energy resources. They are less confident about the benefits of energy institutions designed to promote regional cooperation. The tradeoff between these two schools has evolved over the years. In the 1960s internationalists were favored as industry looked to secure low-cost energy in order to meet growing demand. The oil shocks of the 1970s marked a major shift toward the autonomists. They consider that the government should reduce Japan’s external dependency and take a more active role in managing Japan’s energy supply. In the 1990s the policy shifted back to the internationalists as efficiency edged out security as a key priority. Oil prices have more then doubled in recent years thus giving impetus once again to the policies favored by autonomists.

The Japanese government passed the Fundamental Law of Energy Policy in 2002. The guiding principles of policy for energy demand and supply are to enhance energy security by diversifying energy resources, increasing self-sufficiency, and protecting environment. The Agency for Natural Resources and Energy of Japan published the New National Energy Strategy in 2006. The strategy aims to realize the advanced structure of energy demand and supply toward 2030 by achieving the goal of efficient energy conservation and securing national energy resources. The New National

21 Peter C. Evans, op.cit. p, 8-9.
Energy Strategy represents an attempt to build a coherent vision so as to guide its role in energy markets, reinforce the shift away from open markets and move towards greater government intervention. The strategy consists of the following basic elements: 23

1) The strategy pushes for more government interventions to shape Japan’s energy supply and demand structure. The measures include improving energy efficiency and diversifying energy resources. Nuclear power is given special attention because of its ability to reduce external dependency. The Japanese government expects to raise the percentage of nuclear power in the total national electricity supply to 40% in 2030. 24

2) The energy policy calls for a strengthening of Japan’s resource diplomacy by using government support to secure a stable supply of oil and gas resources. The government could amplify its emergency response capabilities by improving existing oil stockpiling system and developing a stockpiling system for gas. The private sector could also establish more effective risk management systems to prepare for major accidents, natural disasters, and terrorist attacks.

3) At present, Japanese firms are responsible for developing and importing approximately 15 percent of the country’s crude oil needs. The new strategy calls for their contribution to be expanded to 40 percent of total oil consumption by 2030. It also aims to lower Japanese dependence on oil as a primary energy source from its current rate of 50 percent to 40 percent by 2030 through the promotion of alternative energy sources. 25 Also, Japanese government has committed sufficient funds and projects to developing solar, hydro, and renewable energy sources. 26

23 Peter C. Evans, op.cit.
24 Hisane Masaki, op. cit. Japan has started to increase its nuclear power generation to reduce its dependence on oil. In 1970s only less than 1% of Japan’s energy supply was provided by nuclear power, but that ratio rose to more than 10% in late 1990s. Now nuclear reactors provide about one third of total Japan’s electricity. “2001 estimate from the Energy Information Agency,” http://www.eia.doe.gov/emeu/cabs/japan.html.
Japan’s response to the past decade’s surge of oil and other fossil-fuel prices has been to aggressively promote nuclear as the key alternative. At present, Japan gets close to 30 percent of its electricity from nuclear reactors. Its 2010 Basic Energy Plan aims at making nuclear power the key driver in Japan’s electricity supply by raising its share to about 50 percent of electricity by 2030. After being struck by earthquake and tsunami, much of the Fukushima stations’ nuclear generating capacity is now wrecked and nuclear radiation leak has even caused world-wide grave concerns.\(^{27}\) This nuclear disaster would force Japanese government to alter their high reliance on nuclear energy. A smart alternative is to focus on the development of sustainable energy.\(^{28}\) Yet, considering that developing sustainable energy is costly and time-consuming, the possible short-term solution for Japanese government would be seeking foreign energy supplies to meet the urgent domestic energy shortage and to ensure a sustainable economic growth.

**III. Flashpoints of Chinese-Japanese Competition**

A scenario study sponsored by Japan’s Science and Technology Agency offers us some insight on the recent thinking about the energy security threats. The risks centered on China’s resource nationalism. One of the scenarios assumed that China will seek to assert itself as a regional hegemony by continuing its military build-up and tilting toward military solutions to address security problems. The scenario also assumed a rise in anti-Japanese sentiments. In the face of China’s increasing energy demand and rising Chinese-Japanese geo-strategic tensions, there is a strong likelihood for competition to arise over energy supply for three reasons. Firstly, the most dramatic energy competition has been in the East China Sea, particularly the Chunxiao gas fields and Diaoyu Islands. Secondly, Beijing and Tokyo fought a bitter bidding war over a pipeline accessing the Angarsk oil field. Thirdly, the competition over oil producing countries remains intense.\(^{29}\) The flashpoints of bilateral competition will be elaborated as follows:

\(^{27}\) Andrew DeWit, “The Earthquake in Japanese Energy Policy,” Asia Pacific Journal, Japan Focus, http://www.japanfocus.org/-Andrew-DeWit/3501. Sustainable energy includes: hydroelectricity, solar energy, wind energy, wave power, geothermal energy, etc.

\(^{28}\) Ibid.

\(^{29}\) Kent E. Calder, *op.cit.*
1. Energy Competition in the East China Sea

There are two main causes of the disputes in the East China Sea. The first one is the unsettled maritime boundaries that are linked to the exclusive economic zone (EEZ) in the Chunxiao gas field. The other is the territorial dispute over the Diaoyu islands. At the initial stage, the EEZ division was the key factor under debates, but the territorial issue complicated the settlement. 30 Under the *UN International Law of the Sea*, the EEZ of a nation is 200 nautical miles from that nation’s continental shelf. In the East China Sea, the widest separation between China and Japan is 360 nautical miles. Both countries adopted different criteria to set its conception of EEZs. Japan took the median line principle, but China insisted on configuring its EEZ based on the prevailing continental shelf in the shallow East China Sea. 31 The Chunxiao gas fields are only located 4 kilometers on the Chinese-side of the median line. Although the field lies largely on the Chinese side of the median line, Japan claimed that China has siphoned energy resources from within the maritime border that extends from Okinawa. 32

In June 2004 the Japanese Foreign Minister Yoriko Kawaguchi raised the issue with her Chinese counterpart, Li Zhaoxing. In response, Li proposed that both countries could consider developing the project together and putting aside their differences. Yet, the Japanese side protested that China has incorporated the disputed Diaoyu islands into its territory under its territorial sea law. Both sides did not come up with any agreement. Later, a Chinese exploration team started drilling in the Chunxiao gas fields. Japanese government in return granted private developers the right to test drill on its side of the median line. In a show of force, a Chinese submarine intruded into Japanese waters off Okinawa in April 2005. 33 In September it deployed a fleet of five warships near the Chunxiao gas field. It was the first time

that the People’s Liberation Army (PLA) navy warships were seen in that water. To secure its energy resources in the East China Sea, Japan proposed new laws to protect offshore oil and gas rigs in the country’s EEZ in March 2007.34

As for the Diaoyu islands disputes, a crisis took place when a right-wing Japanese group landed on one of the islands to renovate a lighthouse which they constructed in the late 1970s and demanded that the government recognize it. People in Taiwan and Hong Kong responded furiously. Beijing leaders feared the dispute would fan anti-Japanese sentiment in China. Hence, the dispute was not reported at all in the Chinese media until tensions subsided. When seven Chinese activists landed on one of the Diaoyu islands in March 2004, they were taken into custody by Japanese coast guards. The Chinese foreign ministry made an official protest. Recent tension followed Japan’s detention of the captain of a Chinese vessel that collided into two Japanese coast guard ships near Diaoyu islands in September 2010. Even though the Japanese government eventually released the captain, it was steadfast in its investigations. China had to intensify protest actions that involved summoning the Japanese Ambassador and suspending ministerial-level exchanges—all these actions have an impact on the political and economic dimensions of bilateral relations. It is without doubt that given its economic and military rise, China has been displaying a tougher but more confident approach to advance its national interests.35 Apparently, the territorial dispute over the Diaoyu islands was more complicated as it involved political elements and was unlikely to be settled. Though both countries showed their willingness to solve the dispute through dialogues, the talks have made little progress due to the sensitivity of sovereignty issues.36

36 The dispute over the Diaoyu/Senkaku Islands has also been a recurring issue since the US handed the disputed islands over to Japan along with the islands of Okinawa in 1970. The islands lie in the East China Sea, about 12 nautical miles northeast of Taiwan and 200 nautical miles southwest of Okinawa, on the Chinese side of the Okinawa shelf. The dispute is mostly about the surrounding EEZ. Suisheng Zhao, “China’s Global Search for Energy Security: cooperation and competition in Asia-Pacific,” Journal of Contemporary China, 17: 55, p.207-227.
Facing a tough question on how to deal with the emerging energy guzzler, the Chunxiao project and Diaoyu islands have jangled Tokyo’s nerves. Since the two energy-rich territorial waters are claimed by both countries, neither China nor Japan is likely to give up its sovereignty. It is expected that Beijing and Tokyo will increase their exploring energy activities so as to control the energy resources of Chunxiao gas field and Diaoyu Islands. By then, the confrontation between these two rivals will likely be more heated.

2. Oil Pipeline in Russia

Another flashpoint for conflict was competing oil pipeline from Russia. The strategies of China and Japan to diversify energy sources using Russian reserves have been more difficult than expected. The level of competition from China was a factor that Japan did not anticipate as it laid plans to tap Russian energy. As China’s energy needs grew in the 1990s, it increasingly looked to Russia as a source of supply. The Chinese government in conjunction with its oil companies undertook a determined effort to secure oil and gas pipeline agreements linking the two countries. China’s energy imports from Russia, China’s fifth largest oil supplier, have been rising. Japan too has a strong desire to have access to Russian gas reserves. The two countries have fought a bitter bidding war over a pipeline accessing the Angarsk oil field in Siberia.

While Japan urgently lobbied Russia for a 2,300-mile pipeline from Siberia to east coast of the Far East near Japan, China pushed for a 1,400-mile pipeline south to Daqing. The rivalry became so intense that Japan offered to finance $5 billion for pipeline project, invest $7 billion in development of the Siberian oil fields, and throw in $2 billion for Russian social projects. In securing energy resources from Russia, Chinese President Hu Jintao’s visit to Moscow in 2003 yielded a communiqué with Putin endorsing a “China route” for oil pipeline from Angarsk to Daqing. Japan quickly responded by dispatching the former Prime Minister Koizumi to visit Moscow in the same year to press for a “Pacific route” from Taishet near Lake Baikal to Perevoznaya Bay on Russia’s Pacific coast. To sweeten the incentive for Japan’s

37 Shoichi Itoh, op.cit., pp.79–98.
preferred route, Japan offered preferential loans to help defray the cost of the longer pipeline, export terminal, and associated infrastructure. Chinese Premier Wen Jiabao later pledged to invest about $12 billion in the Russian energy sector during his Moscow visits in September 2004. Although Beijing sought a shorter route, Japan won the bid in 2004 because the Chinese government insisted on having full control of the end of the pipeline within its borders. This proposal wielded the Russians zero flexibility in selling their oil to other customers.\textsuperscript{39}

However, with the tense relations between Japan and Russia over Koizumi’s sail around the disputed Northern Territories, and the failure of both countries to sign a peace treaty ending the hostilities of World War II, Russian Industry and Energy Minister Viktor Khristenko signed on April 26, 2005 a decree, \textit{On Determination of the Stages of the Construction of the Eastern Siberia–Pacific Ocean Pipeline System}, which succeeded in satisfying both China and Japan because the oil will reach both countries through the pipeline. This project would supply 20 million tons of oil a year to China and 10 million tons to be transferred by rail to the Pacific coast to Japan.\textsuperscript{40}

The China route of construction work on the first stage linking Taishet and Skovorodino began in April 2004, and had been completely laid in May 2009. However, most energy experts agree that it is unlikely that the second phase of Japan route will be built before 2015.

As two major powers in the East Asia scramble to meet their energy needs while reducing dependence on the Middle East, the largely undeveloped resources of Siberia have become their prize. Although the Russian Far East’s promise is significant, many strategists have cast doubt on the commercial viability of tapping the Far East’s reserves. However, this has not discouraged China and Japan from engaging in a bidding war over Russian projects to bolster their energy security.

3. Oil competition worldwide

Oil dependence has made Japan and China active players in the Middle East

\textsuperscript{39} Suisheng Zhao, \textit{op.cit.}, pp. 207-227
\textsuperscript{40} Alela Kornysheva and Evgenia Sokolova Irkutsk, “Russia has chosen an Eastern draw, oil will flow both to China and Japan,” \textit{Kommersant}, (April 29, 2005).
which account for 90% and 50% of oil imports from the region. Japan is the largest customer in the world for Persian Gulf oil by a substantial margin, but China’s rapidly rising demand will certainly alter that situation. It is unavoidable that there will be fierce competition of energy in the Middle East in the years to come. To sustain China’s economic development, President Hu Jintao met delegates from the Arab League in 2004 in Cairo to develop a “new type of partnership” by selling military equipment and investing in energy infrastructure to the six countries of the Gulf Cooperation Council (GCC) in exchange of increasing oil shipments to China.\(^\text{41}\) Iran is another potential flashpoint in Chinese-Japanese energy relations. In Iran, both countries received separate oilfield development—the Japanese at Azadegan and the Chinese at Yadaran. But because of China’s strong political tie with Iran, Japan faces the difficulty of matching them due to the U.S.-Japan alliance.\(^\text{42}\) If China becomes more aggressive in seeking energy resources in the Middle East, Japan can expect to face an environment of greater energy resource competition.

China has expanded its relations with many oil-rich African countries which supplied about a quarter of its oil imports. Chinese state-run oil companies have already started oil-investments in Sudan, a country accused by the international community of genocide in Darfur in the mid-1990s. By 2000 China’s only energy presence in Africa was in Sudan, but now its involvement on the continent includes Algeria, Libya, Nigeria, Angola and Guinea-Bissau, as well as a number of other sub-Saharan African nations. In 2006 alone, China paid $2.2 billion for exploration rights in a field off Nigeria’s coast, and is expanding exploration of offshore fields in Angola.\(^\text{43}\) China is the vigour of its new relationships with African energy producers with whom Japan is virtually uninvolved.\(^\text{44}\)

Beijing has also been active in Canada and Latin America.\(^\text{45}\) Recently, China’s

\(^{41}\) Suisheng Zhao, op.cit. Six countries of the Gulf Cooperation Council (GCC) include the United Arab Emirates, Saudi Arabia, Bahrain, Kuwait, Qatar and Oman.
\(^{42}\) Ibid.
\(^{44}\) Hisane Masaki, op.cit.
Sinopec International Petroleum Exploration and Production Company agreed to buy for $4.65 billion the 9 percent interest that ConocoPhillips holds in Syncrude, a Canadian business involved in the production of oil sands. In Latin America, the state-owned China Development Bank has promised to lend $20 billion to Venezuela to build new power plants and highways which will be repaid with Venezuelan crude oil. Venezuela’s President Hugo Chavez has long complained about the U.S.’s standing as the largest buyer of Venezuelan oil. Thus, he is pleased to offer his country’s oil to China instead.⁴⁶ A relative newcomer to Latin America, China has moved quickly to become an important trade partner in the region. Vice-President Zheng Qinghong made a tour of three Latin American countries and signed billions dollar agreements for investment in oil and gas in 2005.⁴⁷ Until now, Latin America is only a marginal supplier for Japan.

China is seeking resources abroad and is courting supplier states by providing aid and other forms of development assistance. Its energy diversification strategy is welcomed by many African and Latin American countries as it has not only allowed them to exploit as yet untapped resources but also gain leverage to negotiate better deals with other oil-importing countries. For example, China’s approach—offering exploration, development and financing packages to oil producing countries—has become an attractive alternative to Western companies which do not have a similar integrated package of carrots to offer.⁴⁸

IV. Conclusion

The likelihood of conflicts between the two Asia giants, China and Japan, stems mainly from competition for natural gas deposits in the East China Sea, stakes in the

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⁴⁷ Drew Thompson, “China’s global strategy for energy, security, and diplomacy,” China Brief, Jamestown Foundation 5(7), (March 29, 2005).
⁴⁸ For example, in 2003, when Angola ‘found itself facing a severe cash crisis’, China stepped in with a $2 billion loan the next year that bailed that country out. In Chad, where international lenders threatened to withdraw support from its new pipeline, ‘the Chinese were willing to offer an alternative package of technical assistance, if World Bank discussions broke off’. Unlike US government development agencies, the Chinese do not focus on human rights, anti-corruption or economic reform as requirements for their support. This is a distinct draw to nations like Zimbabwe and Sudan against whom the US government, the European Union and the United Nations have imposed sanctions because of human rights violations. Suisheng Zhao, op.cit., pp.207-227.
oil-producing countries worldwide, and oil pipeline projects in the Russian Far East.

Firstly, the most dramatic Chinese-Japanese energy competition has occurred in the East China Sea, particularly Chunxiao gas fields and Diaoyu islands. Based on energy interest, both countries will continue to explore energy resources in the claimed territorial waters. Despite the two governments having held many rounds of meetings in discussing over jointly developing the petroleum resources, they have not settled their boundary demarcation in the East China Sea. Moreover, owing to the complexity involved in the Diaoyu islands issue, their energy competition in the East China Sea might further worsen bilateral relations.

Secondly, competing pipelines in the Far East is another heated competition. Although Russia has promised to establish pipelines to meet the needs of China and Japan, many scholars and experts are suspicious about the commercial value of tapping the Far East’s reserves. Even though the first stage of oil pipeline has already completed, it remains to be seen whether the second stage of pipelines will be successfully completed. If the project fails, the competition for energy in the Russia Far East will surely rise again.

Thirdly, Japan currently is the largest customer in the world for Persian Gulf oil by a substantial margin but China’s rising demand will alter that situation. Both Japan and China have received separate oilfield development in Iran. However, China’s good relations with Iran and Japan’s difficulty in matching them are a particular frustration for Japanese aspirations not to mention in further complicating Sino-Japanese relations. Moreover, the 2011 nuclear disaster in Japan will definitely push Japan companies to increase its energy exploration worldwide. Hence, fierce competition between these two long-term rivals will in the foreseeable future be expected too.

The bilateral relations have also been troubled by political mistrust. On one hand, China opposed a Japanese permanent seat on the UN Security Council and protested a Japanese history textbook amidst unabated rising anti-Japanese sentiments. On the other hand, Japan proposed of cutting its overseas development assistance to China in
view of China’s improving standard of living. Along with the above political and historical mistrust, the deepening competitive prospects looming in Chinese-Japanese energy relations will further deteriorate their relations. Currently, Japan and China have no choice but to keep a low profile in diminishing their conflicts on exploring energy resources. But occasional friction and even heated conflicts are likely to happen because the energy competition matters are complicated by historical hatred, political distrusts, and territorial disputes.
Reference


