

Sino-Japanese Relations and Cooperative Institutions in Energy

Hidetaka Yoshimatsu
Graduate School of Asia Pacific Studies,
Ritsumeikan Asia Pacific University, Japan

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Hidetaka Yoshimatsu⁺

Abstract

China's steady economic growth after the early 1990s increased domestic energy consumption and demand. This is a critical policy issue for China, as well as Japan that stands in a competitive position in securing energy resources. Moreover, economic growth and a resultant rise in energy demand in major East Asian countries have raised the commonality of states in Northeast and Southeast Asia as energy consumption nations. These nations have common interests in developing new energy sources, enhancing energy efficiency, and raising bargaining power against energy supply nations. Given the evolving conditions surrounding Sino-Japanese energy relations, this article examines the nuanced development of institutions to realise cooperation at the bilateral and regional levels by paying attention to the objective and approach of external policy that the Japanese and Chinese governments have adopted. The arguments that this article advances are two-fold. First, rapidly increasing energy demand in East Asia including China was perceived as a critical policy issue for the Japanese government, and the government took the lead in promoting institutions to tackle the issue at the regional and bilateral levels. Second, the development of the institutions has been conditioned by China's reactions, and the Chinese government calculated how the institutions would contribute to its economic development and formulated its reaction to the institutions in pragmatic manners.

Keywords: China; Japan; East Asia; regional cooperation; energy security; energy conservation

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⁺ Hidetaka Yoshimatsu is professor of politics and international relations at Ritsumeikan Asia Pacific University, Japan. He received his PhD in politics and international relations from Australian National University. Professor Yoshimatsu's research interests include Japan's external policy, Sino-Japanese relations, and regionalism in East Asia. He can be reached at <yoshih@apu.ac.jp>.

Introduction

China and Japan are two of the most influential states in international politics and the world economy. Not only has China maintained a vital political status as a Power-five member of the United Nations Security Council, but its rapid economic growth has also raised its economic presence by providing manufacturing products for various markets in the world. Japan as a major economic power has maintained an important position in the world by diffusing goods, capitals, and advanced technologies in developing and developed countries. The two states have a history of mutual exchange for more than two thousands. However, their political relations after the Second World War have remained chilly largely due to lingering 'history and memory', territorial disputes over the Diaoyu/Senkaku Islands, and resultant political distrust.

In the new millennium, Sino-Japanese relations entered into a new stage by establishing closer economic and social ties. China became Japan's primary trade partner in 2006, making made-in-China products affluent in the Japanese market. Japanese capitals, intermediate goods, and technologies have become important vehicles to sustain the steady development of the Chinese economy and industries. Moreover, the development of institution-building in East Asian forums and under the China-Japan-Korea frameworks has provided the two states with more opportunities to strengthen political relations through increasing direct talks and communications.

This article seeks to analyse factors that have conditioned the development of Sino-Japanese relations by tracing the evolution of cooperative initiatives in a specific policy area: the energy field. China's steady economic growth after the early 1990s increased domestic energy consumption and demand. This is a critical policy issue for China, as well as Japan that stands in a competitive position in securing energy resources. Moreover, economic growth and a resultant rise in energy demand in major East Asian countries have raised the commonality of China, Japan, South Korea, and the members of the Association of Southeast Asian Nations (ASEAN) as energy consumption nations. These nations have common interests in developing new energy sources, enhancing energy efficiency, and raising bargaining power against energy supply nations.

Given the evolving conditions surrounding Sino-Japanese energy relations, this article advances two arguments. First, rapidly increasing energy demand in East Asia including China was perceived as a critical policy issue by the Japanese government, and the government took the lead in promoting institutions to tackle the issue at the regional and bilateral levels. Second, the development of the institutions has been conditioned by China's reactions, and the Chinese government calculated how the institutions would contribute to its economic development and formulated its reactions to the institutions in pragmatic manners. Before examining the two arguments, the following section briefly overviews literature on Sino-Japanese energy relations, and presents a hypothesis that constitutes the foundation of the arguments.

Revisiting Sino-Japanese Energy Relations

Since the early 1990s, the Chinese economy and industries have exhibited rapid growth, leading to increasing demand for energy resources. This evolution has influenced Sino-Japanese relations, urging a number of scholars to conduct research on this topic. Some scholars have highlighted intensive competition in pipeline proposals to secure oil reserves in the eastern Siberia.¹ Others have paid attention to conflicting relations in the East China Sea such as the unsettled maritime boundary, territorial disputes over the Diaoyu/Senkaku Islands, and China's development of offshore gas fields.² Furthermore, China and Japan are deemed to have intensified their commitments to Central Asia and Africa by expanding the provision of foreign aid. The securing of energy resources was one of the major background factors explaining such moves.³ The past studies of energy relations between

¹ Pak K. Lee, "China's Quest for Oil Security: Oil (Wars) in the Pipeline?", *Pacific Review* 18, no.2 (2005): 265-301; and Lyle Goldstein and Vitaly Kozyrev, "China, Japan and the Scramble for Siberia", *Survival* 48, no.1 (2006): 163-78.

² Mark J. Valencia, "The East China Sea Dispute: Context, Claims, Issues and Possible Solutions", *Asian Perspective* 31, no.1 (2007): 127-67; Janet Xuanli Liao, "Sino-Japanese Energy Security and Regional Stability: The Case of the East China Sea Gas Exploration", *East Asia: An International Quarterly* 25, no.1 (2008): 57-78; and Suisheng Zhao, "China's Global Search for Energy Security: Cooperation and Competition in Asia-Pacific" *Journal of Contemporary China* 17, no.55 (2008): 222-26.

³ Jacob Townsend and Amy King, "Sino-Japanese Competition for Central Asian Energy: China's Game to Win", *China and Eurasia Forum Quarterly* 5, no.4 (2007): 23-45.

Beijing and Tokyo have shed light on rivalry and competitive aspects in which the realist perspective on power politics to pursue national interests has strong explanatory utility.

As energy resources have been regarded increasingly important constituents of the state's power, the securing of them is supposed to be one of core national interests. It is reasonable to apply the realist perspective to energy affairs between China and Japan, which have been in politically unstable relations and have stood in a rivalry position in East Asia. At the same time, economic interdependence and political dynamism in the current bilateral and regional scenes have put the Sino-Japanese relations in the more complex configuration. Indeed, political relations between Beijing and Tokyo entered into a grave crisis in 2000-2006 mainly due to Prime Minister Junichiro Koizumi's regular visits to the Yasukuni Shrine. Yet, bilateral economic interdependence has deepened even in the Koizumi era: bilateral trade expanded from US\$85.8 billion in 2000 to US\$211.3 billion in 2006, and then to US\$266.4 billion in 2008. More specifically, Chinese leaders have paid attention to creating the energy-efficient economy and society through the promotion of international cooperation. For instance, President Hu Jintao presented a 'new energy security concept' at the G8 Summit in July 2006, encouraging the international community 'to strengthen R&D [research and development] and promote energy-saving technology, and support all countries in their efforts to enhance energy efficiency, conserve energy and reduce per unit GDP [gross domestic product] energy consumption'.⁴ Given that Japan holds experiences and technologies to help attain this objective, cooperation with Japan is important to create an energy-efficient and environment-friendly society in China. In the regional context, the development of formal institutions such as the ASEAN+3, the East Asia Summit (EAS), and the Asia Europe Meeting (ASEM) have provided China and Japan with more opportunities and necessities for coordinating their visions and policies to attain collective regional interests. These evolutions indicate that research on Sino-Japanese relations needs to go beyond the static realist perspective that highlights conflicting and confrontational aspects alone. It is required to take into account conflicting *and* cooperative aspects seen in diplomatic visions and policies that the two

⁴ 'Hu Jintao's Address at the G8 Outreach Session', July 17, 2006, <<http://www.fmprc.gov.cn/eng/wjdt/zyjh/t264261.htm>>.

states adopt in response to growing economic interdependence and evolving multilateral institutions.

This article examines Sino-Japanese energy relations in terms of the objective and approach embedded in a state's external policy. In so doing, it sheds light on the influence of major characteristics of the political economy of East Asia. The prominent thesis that explains major characteristics in the political economy of East Asian states and their economic development is the developmental state model. The core tenet of the model is its stress on the state's particular and decisive role in creating efficient and competitive industrial structure that would not have arisen merely following market signals.⁵ An important feature that underpins the tenet is the prominent position of 'economic development' as the primary objective of a developmental state.⁶ The ruling politicians regard steady economic development as the national goal to legitimise their political reign, and talented elite bureaucrats formulate and implement efficient and coherent policies to attain this objective. In terms of approach, pragmatism can be identified as a distinctive feature in the political economy of major East Asian states including Japan and China.⁷ Pragmatism is a mode of human behaviour that gives respect to value-neutral, non-deterministic, goal-oriented action, and 'permits the evaluation of an act or an event in terms of its favorable or unfavorable consequences'.⁸ The states that adopt the pragmatic approach pursue realistic and concrete consequences through a process of continual practices and transformations. They tend to avoid the deterministic political tension that derives from abstract values and norms. They also look for flexible policy options,

⁵ Charmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990); and Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989).

⁶ Other features that sustain the developmental state include the state's intensive intervention in the market, targeting industrial policy, and close government-business relations.

⁷ Michele Schmiegelow and Henrik Schmiegelow, *Strategic Pragmatism: Japanese Lessons in the Use of Economic Theory* (New York: Praeger, 1989); Beng-Huat, Chua, *Communitarian Ideology and Democracy in Singapore* (London: Routledge, 1995); and Edgar H. Schein, *Strategic Pragmatism: The Culture of Singapore's Economic Development Board* (Cambridge, Mass: MIT Press, 1996).

⁸ C. Perelman and L. Olbrechts-Tyteca, *The New Rhetoric: A Treatise on Argumentation* (Notre Dame: University of Notre Dame Press, 1969): 266.

reconsidering principles and rules in terms of realistic situations and the decisions required to take positive action. This article assumes that economic development as the objective of, and pragmatism as the approach in the state's external policy, have much to do with energy affairs between China and Japan.

It is controversial whether China can be regarded as an exemplar of a developmental state. Some scholars argue that China is lacking the basic elements of the developmental state in state capacity and relations with the society.⁹ Others hold that China has replicated important aspects of the developmental state in the process of achieving high economic growth.¹⁰ This article assumes that China follows the path of the developmental state in terms of the objective and approach in its external policy. The Chinese government regards steady economic development as the primary national objective. This is because social stability created by steady economic development is directly linked to regime legitimacy of the Chinese Communist Party (CCP), which advocated that China can only develop well under CCP leadership. In terms of approach, the Chinese government has a strong pragmatic orientation. It has incorporated a pragmatic orientation in dealing with nationalism in its domestic society and major external policy agendas.¹¹ In particular, the Chinese government has implemented a pragmatic foreign policy that is conducive to the domestic consolidation of the CCP regime by avoiding confrontational relations with the United States and other western powers.¹²

Japan's position as a developmental state is more complicated. Japan was the pioneer of the developmental state, and its economic development policy was regarded as pragmatic-

⁹ For instance, Howell argues that the high degree of decentralisation, weak bureaucratic capability to formulate coherent national development policy, as well as diverse and contradictory links with private sectors made it difficult to regard China a developmental state (Jude Howell, "Reflections on the Chinese State", *Development and Change* 37, no.2 (2006): 273-97).

¹⁰ Seung-Wook Baek, "Does China Follow 'the East Asian Development Model'", *Journal of Contemporary Asia* 35, no.4 (2005): 485-98; and Mark Beeson, "Developmental States in East Asia: A Comparison of the Japanese and Chinese Experiences", *Asian Perspective* 33, no.2 (2009): 5-39.

¹¹ Jing-dong Yuan, "China's Pragmatic Approach to Non-proliferation Policy in the Post-Cold War Era", in Suisheng Zhao (ed.) *Chinese Foreign Policy: Pragmatism and Strategic Behaviour* (Armonk, N.Y.: M.E. Sharpe, 2004); and Suisheng Zhao, "China's Pragmatic Nationalism: Is It Manageable?" *Washington Quarterly* 25, no.1 (2005/06): 131-44.

oriented.¹³ As some scholars observe, path dependency and institutional ‘stickiness’ still encourage the Japanese government to adhere to the developmental state.¹⁴ However, this article assumes that Japan has departed from the conventional developmental state in its external policy. The Japanese government has gradually intensified orientations in its external policy to assume burdens to support the international system in general, to sustain steady economic and industrial development in East Asian countries in particular.¹⁵ In the new millennium, Japan’s declining position *vis-à-vis* the growing China urged its government to incorporate diverse objectives in its external policy: to maintain a prominent position in East Asia by playing a leadership role; to maintain stable political relations with the United States and other democratic nations; and to get economic benefits from the growing Chinese market. This indicates that Japan’s external policy pursues integrated policy objectives, not economic development alone. In terms of approach, the Japanese government has implemented external policy in less pragmatic manner. Japanese government officials have engaged in various multilateral institutions such as the Group of Seven (G-7), the Organisation for Economic Cooperation and Development (OECD), the General Agreement on Tariffs and Trade (GATT)/World Trade Organisation (WTO), enabling them to deepen their understanding of international norms and institutions. Moreover, the Japanese government and business accumulated specific institutions and practices that contributed to industrial and economic development. Japan’s external policy incorporates ideational elements to diffuse internationally accepted norms and rules as well as institutions and practices developed from its past experiences.

In summary, this article seeks to address the question of what factors have conditioned the development of energy affairs between Japan and China. It hypothesises that while

¹² Suisheng Zhao, “Chinese Foreign Policy: Pragmatism and Strategic Behaviour”, in Suisheng Zhao (ed.) *Chinese Foreign Policy: Pragmatism and Strategic Behaviour* (Armonk, N.Y.: M.E. Sharpe, 2004).

¹³ Johnson, *MITI and the Japanese Miracle*; and Schmiegelow and Schmiegelow, *Strategic Pragmatism: Japanese Lessons in the Use of Economic Theory*.

¹⁴ Derek Hall, “Japanese Spirit, Western Economics: The Continuing Salience of Economic Nationalist in Japan”, in Eric Helleiner and Andreas Pickel (eds) *Economic Nationalism in a Globalizing World* (Ithaca, N.Y.: Cornell University Press, 2005); and Beeson, “Developmental States in East Asia”.

¹⁵ Min Wan, “Spending Strategies in World Politics: How Japan Has Used its Economic Power in the Past Decade,” *International Studies Quarterly* 39, no.1 (1995): 85-108.

China and Japan had originally similar styles in the objective of and an approach to external energy policies, differences in political and economic conditions urged the two governments to adopt visions and policies in different manners. China, which is in a rising stage of economic development, follows the original style. It adopts visions and policies with an eye to ascertaining domestic economic development in a pragmatic manner to pursue economic benefits avoiding political and ideational elements. Japan is in an economically mature and politically defensive position. This position encourages the Japanese government to formulate visions and undertake policies with integrative objectives in a politicised and ideational manner. The differences in objective and approach cast nuanced shadows on the development of cooperative institutions to which China and Japan have committed.

This article examines the above hypothesis through the examination of Sino-Japanese energy relations at two levels. The first is relevant to the regional level. As regional cooperation has developed under the ASEAN+3 and EAS, the energy sector has become a major target of multilateral cooperation. The study investigates how and with what motivations China and Japan have committed to such cooperation. The second is pertinent to the bilateral level. Given growing economic interdependence, the energy sector (combined with the environmental sector) emerged as a critical field where Japan and China can find common interests in bilateral cooperation. The article examines how China and Japan have engaged in the development of bilateral institutions to promote talks and measures for energy cooperation.

Sino-Japanese Energy Relations at the Regional Level

Growing energy demand in East Asia and related problems

The East Asian countries as a group have several common features in energy-related environments. The first is a sharp rise in energy demand. Although the regional economies experienced severe setbacks due to the Asian financial crisis in 1997-98, they could recover from the crisis in 1999, returning to the growth trend. Afterwards, steady economic growth led to an increasing demand for energy because of input expansion in the industrial sector and consumption growth in the household and transport sectors. In fact, primary energy consumption in Asia increased by 68 % in 1998-2008 from 2,284 million tons to 3,846 million tons. This increase was far bigger than that for the world total (27 %).¹⁶ The second is heavy dependence on oil imported from the Middle East. The imports of oil in Asian countries increased from 831 million tons in 2003 to 1,088 million tons in 2008.¹⁷ In 2008, the ratio of dependence on the Middle East was 63.2 %, which was extremely high compared with the United States (18.8 %) and Europe (18.7 %).¹⁸ High dependence on oil from the Middle East means that political instability in the region has an imperative influence on energy supply for Asian countries. This concern turned to reality when the Iraq War occurred in 2003. Third, energy efficiency is relatively low in Asian countries. This is shown in the TPES per GDP, a most common indicator for energy efficiency.¹⁹ The TPES per GDP was 0.60 for Asia and 0.75 for China in 2007. These figures were more than double compared with the world average (0.30).²⁰

The above common features brought about specific problems that jeopardise the securing of necessary energy in stable ways with reasonable price. The first is weak bargaining power of East Asian countries as a consumer group. This point leads to the so-called 'Asian Premium' issue on the procurement of crude oil, liquid petroleum gas (LPG),

¹⁶ *BP Statistical Review of World Energy 2009*: 40.

¹⁷ *BP Statistical Review of World Energy 2004*: 18; *BP Statistical Review of World Energy 2009*: 20.

¹⁸ *BP Statistical Review of World Energy 2009* : 20.

¹⁹ TPES per GDP means total primary energy supply per gross domestic product, and is indicated as toe per thousand 2000 US\$.

²⁰ International Energy Agency, *Key World Energy Statistics 2009*: 49.

and liquid natural gas (LNG). The Asian Premium issue particularly means that the price of the Middle East crude oil imported by Asian countries is set higher than that imported by countries in North America or Western Europe.²¹ The second is the lack of feasible systems for retaining energy resources in emergency. Although oil import is heavily reliant on the politically unstable Middle East, East Asian countries did not establish the sufficient oil stockpiling system except for Japan and South Korea. The third is the weak exploitation of alternative energy resources. Given that most East Asian countries stand in a competitive position as the importers of energy, the development of alternative energies in one country means increase in energy available to its neighbouring countries. However, alternative energy resources including energy conservation have not been utilised adequately in East Asia.

The countries in East Asia needed to formulate various measures to tackle the above energy-related problems. The measures extend from decreasing oil imports through energy conservation and the exploitation of new energy sources, to stabilising oil imports through the diversification of import sources and strength in relationship with oil exporting countries, and to preparing for emergency by oil stockpiling and legal institutions. Importantly, the management of energy resources has character of ‘public goods’ in that harmonised collective action will produce higher benefits for all actors involved in it. The East Asian countries can stand in the positive sum position in the accumulation and utilisation of best practices in energy use, an increase in bargaining power *vis-à-vis* energy producer countries, and the development of the new energy market.

The development of regional institutions for energy cooperation

The Japanese government, which raised interests in creating the stable energy system in East Asia, began to search for possible energy cooperation in the region. The Japanese Ministry of Economy, Trade and Industry (METI) took the lead in launching an energy-related regional institution. In September 2002, the Japanese government hosted the eighth International Energy Forum (IEF) in Osaka, which was held in Asia for the first time. On the fringes of the forum, the government hosted an informal energy ministers’ meeting of

²¹ The oil price destined for Asia is to be higher by about one dollar per barrel.

China, Japan, South Korea, and ASEAN countries. At the meeting, Takeo Hiranuma, the Minister of Economy, Trade and Industry, proposed the Hiranuma Initiative to strengthen energy cooperation in East Asia. The initiative comprised of five pillars: (1) the establishment of an emergency network; (2) the promotion of oil stockpiling; (3) the launching of joint studies of the Asian oil market; (4) natural gas development; and (5) the improvement of energy conservation and renewable energy. An idea that the China-Japan-Korea framework would be more feasible was presented at prior discussions among METI officials. However, the ASEAN+3 framework was selected on the grounds that cooperation under the framework had started with the holding of an ASEAN+3 Senior Official Meeting on Energy (SOME+3) meeting in July 2002, and that it would be less risky to establish an institution to embrace China whose response was uncertain.²² Since the ASEAN+3 meeting was held in the fringes of the IEF, the participating East Asian countries could show a unified stance as energy consumers.

As the consequence of the Osaka meeting, the institutionalisation of ASEAN+3 energy cooperation set forth in 2003. In July 2003, a SOME+3 meeting was organised in Langkawi, Malaysia. At the meeting, it was agreed that the SOME+3 Energy Policy Governing Group (EPGG) would be established to provide overall policy directions and program management for cooperation, and that common issues and concerns in energy security, natural gas development, oil market studies, oil stockpiling, and renewable energy would be discussed. Based on the agreement, the first SOME+3 EPGG meeting was held in Bangkok the following month. Through discussions at the two meetings, the basic frameworks for ASEAN+3 energy cooperation was established. At the working level, the EPGG comprised of senior officials of each country was established. Under the EPGG, forums were set up in five policy areas: energy security, oil market, oil stockpiling, natural gas, and new and renewable energy (NRE) and energy efficiency and conservation (EE&C).²³ The name of ‘forum’ was adopted in order to stress voluntary and non-binding

²² Yasuo Tanabe, “Ajia enerugi patonashippu ni mukete (Searching for energy partnership in Asia)” in Yasuo Tanabe (ed.) *Ajia Enerugi Patonashippu* [Energy partnership in Asia] (Tokyo: Enerugi Forumu, 2004), 227.

²³ The energy security forum focuses on the development of emergency energy security communication. The oil market forum discusses various issues in the oil market and oil industry in Asia

nature of this cooperative framework.²⁴ The institutionalisation of ASEAN+3 energy cooperation advanced in 2004. In June, the first ASEAN+3 energy ministers' meeting was held in Manila, and ministers issued the joint ministerial statement. At the meeting, the ministers confirmed the common goals of greater energy security and sustainability in East Asia that would become the largest energy consumption region in the world. They also swore to energy partnership in five areas including oil stockpiling, natural gas, and renewable energy, and decided to work on relevant studies and activities at the senior official level. The ministerial meeting was institutionalised, and a meeting took place annually afterwards.

In the process of ASEAN+3 energy cooperation, some outcomes have been produced. This was the case in oil stockpiling. Japan and South Korea, members of the International Energy Agency (IEA), established the national and private oil stockpiling systems under the agency's obligation.²⁵ The Chinese government decided to establish the national oil stockpiling system in the tenth five-year plan (2001-2005) approved at the National People's Congress in 2001. The government finished the construction of its first oil stockpiling bases in Dalian in Liaoning Province, Huangdao in Shandong Province, and Zhoushan and Zhenhai in Zhejiang Province by 2009. Thus, Northeast Asian countries have engaged in the development of the oil stockpiling system by their own efforts. In contrast, Southeast Asian countries pursued the development of the oil stockpiling system under the ASEAN+3 framework. The Philippines, Thailand, and Vietnam conducted a feasibility study to introduce the oil stockpiling system, and presented the plan for the development at the meetings of the oil stockpiling forum. Furthermore, the ASEAN+3 cooperation aimed at setting up a roadmap for oil stockpiling. For this objective, the Working Group on the Development of Oil Stockpiling Roadmap was organised, and its first meeting took place in November 2008.

in general and the Asia Premium issue in particular. The oil stockpiling forum deliberates on possible development of stockpiling programs in the member countries. The natural gas forum examines investment in the exploration and production of natural gas as well as the development of gas transport infrastructure. The renewable energy forum searches for the wider use of NRE.

²⁴ Tanabe, "Ajia enerugi patonashippu ni mukete", 231.

The ASEAN+3 energy framework did not contain an important Asian country in terms of energy consumption: India. India had shown interests in energy cooperation in Asia in the early 2000s. For instance, Ram Naik, Indian Minister of Petroleum and Natural Gas, expressed his interests in energy security to his Japanese counterpart when an informal energy ministers' meeting of East Asian countries was held in September 2002.²⁶ India's involvement in energy cooperation was realised under the framework of the EAS. In December 2005, the first EAS meeting was held in Kuala Lumpur, and leaders of ASEAN+3 members, Australia, New Zealand, and India confirmed basic principles to search for the creation of a community in the region. Importantly, the energy sector became one of the main pillars for EAS cooperation. At the second EAS meeting in January 2007, the leaders signed the Cebu Declaration on East Asian Energy Security. The declaration contained willingness to set individual goals and formulate action plans voluntarily for improving energy efficiency, and to work together towards freer trade on biofuels and a standard on biofuels used in engines and motor vehicles. They formally agreed to focus initially on three areas for cooperation: energy efficiency and conservation; energy market integration; and bio-fuels for transport and other purposes.

Like the ASEAN+3 framework, an energy ministers' meeting was organised under the EAS framework. In August 2007, the first EAS energy ministers' meeting was held in Singapore. At the third EAS energy ministers' meeting in July 2009, the ministers confirmed progress in the three work streams: energy efficiency and conservation, biofuels for transport and other purposes, and energy market integration. Furthermore, the members organised the EAS Energy Cooperation Task Force (ECTF) in March 2007, which comprised of senior officials of the member countries. Between March 2007 and July 2009, eleven meetings of the ECTF were organised to guide the progress of cooperation.

²⁵ The IEA was established in 1974 within the OECD from the lesson of the first oil shock in 1973. The oil importing IEA members have legal obligation to hold emergency oil reserves equivalent to at least 90 days of oil imports.

²⁶ Tanabe, "Ajia enerugi patonashippu ni mukete", 229.

Important in the EAS energy cooperation was its close collaboration with the Economic Research Institute for ASEAN and East Asia (ERIA).²⁷ The major objective of the ERIA has been directed towards the promotion of East Asian integration, and energy cooperation was regarded as one pillar to pursue this objective. The ERIA has sustained energy cooperation under the EAS by providing scientific perspectives on energy issues. For instance, Hidetoshi Nishimura, executive director of the ERIA, explained the institute's research outcomes for energy cooperation such as the EAS Energy Outlook and the Biofuel Handbook and Guidelines at the third EAS energy ministers' meeting in July 2009.

Cooperative activities under the EAS framework encouraged the member governments to take concrete actions to manage energy issues. At the second EAS energy ministers' meeting, ministers agreed to formulate an action plan for energy efficiency. By the eleventh ECTF meeting in July 2009, all member countries except for India and Laos prepared for the Energy Efficiency Goals and Action Plan. In this plan, the countries set energy intensity, a major indicator for energy efficiency goals, between 25-50 % improvement by 2030, and presented their respective sectoral action plans referring to international best practices.

China's preferences and difficulty in developing regional institutions

The development of regional institutions was realised under Japan's step-by-step strategy: the Hiranuma Initiative in 2002, the holding of ASEAN+3 energy ministers' meeting in 2004, and the launching of the EAS energy ministers' meeting in 2007. Indeed, the ASEAN Centre for Energy (ACE) was appointed as the secretariat of ASEAN+3 energy cooperation. But, the Japanese government-affiliated bodies such as the Institute of Energy Economics, Japan (IEEJ) and the Japan Oil Gas and Metals National Corporation (JOGMEC) have provided financial and intellectual support for the holding of relevant meetings. Furthermore, the Japanese government has made commitments to advancing

²⁷ The ERIA was formally set up in June 2008. ERIA, an East Asian version of the OECD, aims to assist in the promotion of economic integration through survey analyses and policy proposals targeting policy research areas such as deepening economic integration, narrowing development gaps, and sustainable development (METI (Japanese Ministry of Economy, Trade and Industry), *Tsusho Hakusho 2008* [White paper on international trade 2008] (Tokyo: Nikkei Insatsu, 2008), 438).

specific policy issues. For instance, the government has taken the lead in diffusing the idea of oil stockpiling by organising forums for oil stockpiling since 2003. It also helped Thailand, Vietnam, and the Philippines to formulate a master plan regarding the introduction of the oil stockpiling system by showing prospects on energy demand in each country and transferring Japan's experiences in design, operation, and support for the system.

Japan's such commitments were sustained by linkages with international and regional institutions. Japan could take advantage of its experiences in international institutions such as the IEA and IEF. The reason why Japan could take a strong leadership in oil stockpiling was that it had accumulated expertises in this respect through the IEA activities. Moreover, Japan took advantage of its own institutional initiatives. As already explained, the EAS energy cooperation has been sustained by the ERIA. The ERIA was established by an initiative by Japan who has provided substantial financial and human resources with the institute. The Japanese government, through collaboration with the IEF, IEA, and ERIA, sought to diffuse internationally accepted norms, guidelines, and principles for managing energy issues and energy cooperation.

How has China, another regional leader in East Asia, committed to energy cooperation in the region? China, a member of the ASEAN+3 and EAS frameworks, has been involved in energy cooperation since the energy-related institutions under the frameworks started. However, China's presence in these institutions has remained weak. China became a leading country in only one out of eight forum/ work streams: the natural gas forum. The Chinese government held the inaugural meeting of the forum in Shanghai in March 2004 and the fifth meeting in Beijing in October 2008. In parallel to the forum meeting, the natural gas business dialogue was established under the Chinese leadership. At the dialogue meetings, representatives of oil companies have made presentation on their business activities. However, the dialogue tended to be a place for presentations by the member countries, not providing a venue for substantial discussions.

China's weak commitments to regional energy cooperation were apparent in practical activities. The Chinese government has not sent its delegate to the meetings of forums that

it did not find interests.²⁸ Furthermore, Chinese delegates' attitudes at individual forum meetings have been generally cautious and passive. For instance, a plan for future meetings was presented at the first working group meeting on the development of oil stockpiling roadmap in November 2008. The plan was important in advancing substantial cooperation in a speedy manner. The Chinese delegate suggested that the proposed timeframe of the future meetings is pressurized and the topics should be decided later as the economic situation changes rapidly.²⁹ Afterwards, the Chinese government sometimes did not send a delegate to the working group's meeting.

China's weak involvement in regional multilateral institutions in the energy field is peculiar in comparison with other policy fields. In the trade field, China took the lead in developing free trade agreement (FTA) networks in East Asia by initiating the China-ASEAN FTA. At the ASEAN+3 summit in October 2003, Chinese Premier Wen Jiabao formally proposed studying the feasibility of an FTA in East Asia. On the basis of Wen's proposal, the expert group began a feasibility study in January 2005 and submitted a report to an ASEAN+3 Economic Ministers meeting in August 2006. China's positive commitment to ASEAN+3 cooperation was apparent in the financial field. The institutional framework of finance ministers was established in response to Chinese Vice-President Hu Jintao proposal in 1998. Premier Wen officially proposed converting the separate bilateral swap agreements under the Chiang Mai Initiative into a unified multilateral currency swap agreement at the ASEAN+3 summit in October 2003.³⁰

China's lukewarm commitments to multilateral energy cooperation derived from two factors. The first factor is relevant to Japan's strong leadership and its distinctive approach. As already explained, the development of multilateral institutions in the energy sector has been sustained by Japan's provision of financial and intellectual support. Moreover, the Japanese government sought to change the basic approach to energy security. In the past,

²⁸ Interview, METI, February 2010, Tokyo.

²⁹ "Report of the First Working Group Meeting on the Development of Oil Stockpiling Roadmap for the ASEAN+3", 28 November 2008, Available at <http://aseanenergy.org/download/reports/energy_organisations/asean+3/FINAL%20Report%20of%20the%201st%20WG%20Meeting%20OSRM.pdf>.

³⁰ Christopher M. Dent, "Taiwan and the New Regional Political Economy of East Asia", *China Quarterly* 182 (2005), 391-92.

the concealment of information was important for energy security. This is because the disclosure of information about domestic energy conditions and energy policies was regarded as leading to reduced energy security. The Japanese government pursued 'an open approach' to enhance energy security by sharing information about energy affairs openly and taking joint action. For instance, the Japanese government encouraged other countries to set up and publish an oil stockpiling plan and an action plan for energy efficiency.³¹

The Chinese government has strategically decided on its attitudes towards regional cooperation. In the energy field, China has behaved as a follower like other Southeast Asian countries, not showing keen interests in directions and substance of multilateral institutions under the ASEAN+3 and EAS. Instead, the Chinese government has pushed forward another framework, the Five-Country Energy Ministers' Meeting.³² Given Japan's assertive roles and international linkages, China adopted a passive posture to follow Japan's initiatives as long as such initiatives do not undermine China's vital interests. Moreover, the Chinese government has been cautious about taking the open approach in an increasingly important policy area of energy security.

The second factor is China's preferences for bilateral commitments through corporate activities. Chinese oil companies have made overseas investment since the early 1990s, and accelerated this move in the new millennium. The investment destination covers various parts of the world including Africa, the Americas, the Middle East, and Central Asia.³³ Asia Pacific has been a major target of investment. For instance, the China National Offshore Oil Corporation (CNOOC) acquired nine Repsol subsidiaries from the Repsol-YPF group for US\$585 million in 2002, and the subsidiaries owned working interests in five oil and gas properties in Indonesia. In the same year, the company acquired a 12.5 % share of Indonesia's Tangguh LNG project from BP for US\$275 million. In May 2003, CNOOC signed an agreement to acquire an aggregate interest of 5.3 % in the reserves and

³¹ Interview, METI, February 2010, Tokyo.

³² The meeting is comprised of China, Japan, South Korea, the United States, and India, and its first meeting was held in Beijing in December 2006.

³³ Hongyi Harry Lai, "China's Oil Diplomacy: Is It a Global Security Threat?", *Third World Quarterly* 28, no.3 (2007): 519-37.

upstream production and exploration of Australia's North West Shelf LNG project with US\$348 million. In July 2006, CNOOC signed an agreement with a Malaysian oil company Petronas to purchase LNG over 25 years. In January 2007, the China National Petroleum Corporation (CNPC) signed contracts with the Myanmar Ministry of Energy on conducting crude oil and natural gas exploration at three deep-sea blocks off Myanmar's western Rakhine coast, covering a total area of 10,000 square kilometres. These are just a few examples of Chinese oil companies' active business operations in the Asia Pacific.

Chinese oil companies' investment activities explain the Chinese government's distinctive commitments to the ASEAN+3 energy cooperation. Since Chinese national oil companies have engaged in LNG projects in East Asia intensively, the Chinese government took the lead in the natural gas forum, and encouraged commitments of business actors by establishing the natural gas business dialogue. The meetings of the forum and business dialogue have been valuable opportunities to exchange information about the natural gas development plan in East Asia and present Chinese oil companies' strategies. Thus, the Chinese government took advantage of ASEAN+3 cooperation to draw practical benefits that were directly linked to corporate operations and profits.

Sino-Japanese Energy Cooperation at the Bilateral Level

Japan's perception of China's energy problems

The Chinese economy has achieved 8-10 % economic growth since the early 1990s, and the economic boom has had significant influences on energy consumption. China's primary energy consumption increased dramatically from 917.4 million toe (tonne of oil equivalent) in 1998 to 2002.5 million toe in 2008, accounting for 17.7 % of the world total consumption.³⁴ Given that China's per capita energy consumption was still low – 1.5 toe in 2008, compared with 7.4 toe for the United States and 4.0 toe for Japan –, energy consumption was projected to grow continuously in the future. Moreover, the low level of energy efficiency has underpinned sharp growth in energy consumption. In China, the industrial sector accounted for roughly 70 % of the total energy consumption, and specific

energy consumption in energy-intensive industries such as electricity, iron, nonferrous metals, and chemicals was 40 % higher than that in major developed countries.³⁵ The adoption of new technologies for building a resource-efficient, environmentally-friendly society was a vital and urgent issue for the Chinese government.

The Japanese government raised the perception of risks resulting from growing energy demand in China. This perception was revealed in the *New National Energy Strategy*, the most fundamental energy policy in the new millennium launched in May 2006. The section of 'Asia Energy and Environment Cooperation Strategy' begins with the following passage:

Asia represented by China is a region that has the highest growth in energy demand in the world. Accordingly, stability in the demand and supply of energy is an indispensable issue for the stable growth of the world's energy market. Furthermore, Japan's industrial structure is broadly linked to Asian countries, and the stable supply of energy in Asian countries is an important issue for maintaining and strengthening competitiveness of the Japanese industry.³⁶

The Japanese government paid attention to growing need for energy conservation in Asian countries, especially China. The first item in concrete measures in cooperation with Asia in the *New National Energy Strategy* was the holding of bilateral policy talks and the formulation of action plans, and the second was support for institutional development for energy conservation in Asian countries. China was positioned as the primary target for such cooperation.

The initiation of bilateral institutions for energy cooperation

³⁴ *BP Statistical Review of World Energy 2009* : 40.

³⁵ Xiaoguang Qu, "2007 nen zenjindai go no chugoku no enerugi josei" [The energy conditions in China after the 2007 National People's Congress], *NEDO Kaigai Report 998* (2007), 63.

³⁶ METI, "New National Energy Strategy", 54. Available at <<http://www.meti.go.jp/press/20060531004/senryaku-houkokusho-set.pdf>>.

A first initiative in promoting energy cooperation between Japan and China was the holding of a public-private forum. In May 2006, the first Japan-China Energy Conservation Forum was held in Tokyo. The forum was sponsored by Japanese METI and the Japan-China Economic Association (JCEA), as well as China's National Development and Reform Commission (NDRC) and Ministry of Commerce.³⁷ Although this event was named just a 'forum', it was an important opportunity for both governments illustrated by the attendance of high-ranking government officials – the Ministers of Economy, Trade and Industry and of the Environment from Japan, and the Minister of Commerce and vice-chief of NDRC from China. The three-day forum, involving some 500 participants from Japan and 300 from China, provided high-level speeches and theme-specific discussions. Moreover, a section meeting was organised in six fields: energy conservation laws and regulations, ESCO (energy service company) programs, iron and steel, construction materials, energy, and automobiles. Afterwards, both governments have held the conservation forum annually in rotation in Tokyo and Beijing.

There were two important background factors in the launching of the forum. First, it was held during severe political tensions. Sino-Japanese political relations entered into a grave crisis in 2005-06. In April 2005, a series of anti-Japanese demonstrations broke out in major Chinese cities including Beijing and Shanghai. The following month, Chinese Vice-premier Wu Yi, who had made a formal visit to Tokyo, suddenly cancelled a meeting with Japanese Prime Minister Koizumi. Koizumi's visit to Yasukuni Shrine in October led to the cancellation of a planned China-Japan-Korea summit in late 2005. In the context of such severe political relations, the forum was one of the largest bilateral events of that time. It was the first time that a Chinese government official at the minister and above levels visited Japan after Wu Yi's visit in May 2005.³⁸

Second, business interests had much to do with the holding of the conservation forum. The Japanese industry, which has been confronted with pollution issues and oil shocks since the early 1970s, has achieved remarkable improvement in energy saving. The efforts

³⁷ The NDRC is one of Chinese administrative agencies, which formulates economic policies and holds an authority to make final approval of the nation's five-year economic plans and large-scale development projects. The agency also deals with China's energy affairs.

³⁸ *Nihon Keizai Shimbun*, May 5, 2006.

to overcome these problems provided the industry with the world's highest energy efficiency and technologies for energy conservation and resource recycling. For instance, Japan's energy consumption (and CO₂ emission) for producing 1 tonne steel was 17 per cent less than the United States and 33 per cent less than China in 2003.³⁹ Japan's technologies and knowhow for energy conservation had valuable business values for the Chinese market. According to a survey of the Japanese Ministry of the Environment, the market value for the environmental business among five Asian countries (China, Indonesia, India, Thailand, and Vietnam) was projected to increase from US\$21-25 billion in 2000 to US\$134-164 billion in 2020. While China accounted for roughly half of the total value in 2000, its share would rise to two thirds in 2020.⁴⁰ China was expected to be a lucrative market for environment- and energy-related businesses for Japanese firms.

The private sector played a significant role in launching the conservation forum. The JCEA, established in 1972, has engaged in energy saving cooperation with China by taking advantage of its long and substantial connections with the Chinese government.⁴¹ The association set up the Environmental Committee in 1992, and the committee has organised, in collaboration with Chinese government agencies, the Japan-China Conference for Environmental and Industrial Cooperation in every two years since 1999.⁴² When the JCEA sent a delegate to China in June 2005, Akira Chihaya, Chairman of the association, delivered a plan to hold an energy conservation forum to Chinese Premier Wen.⁴³ This was the first offer of the forum to the Chinese government. This fact shows that the forum was a JCEA-initiated gathering, and the private sector played a liaison role in drawing cooperation from the Chinese government during severe political conditions.

³⁹ JISF (Japan Iron and Steel Federation). 2006. *Tekkogyo no Chikyu Ondanka Taisaku* [Measures against global warming in the steel sector] (Tokyo: JISF, 2006), 2.

⁴⁰ MoE (Japanese Ministry of the Environment), *Ajia Shuyo Koku no Kankyo Bijinesu no Senzai Shijo Kibo Suikei ni Kansuru Chosa Hokokusho* [Survey report on estimated potential market size for environmental business in major Asian countries] (Tokyo: MoE, 2004), 10. Available at <http://www.env.go.jp/policy/env_business/asia_15.pdf>.

⁴¹ For instance, the association has sent a mission annually since 1975. The delegates have had opportunities to meet Premier and other top leaders at every time when the mission visits Beijing.

⁴² Interview, Japan-China Economic Association, Beijing Office, March 2009, Beijing.

⁴³ Yuko Yamamoto, '13 oku × shoene' to nihon' [1.3 billion × energy conservation' and Japan', *JC Economic Journal* (August, 2006), 4.

The Japanese and Chinese governments sought to sustain the development of cooperative relations by setting up formal institutions. Japanese METI Minister Akira Amari visited Beijing in December 2006 in order to attend the Five-Country Energy Ministers' Meeting. During the meeting, Amari and his counterpart Ma Kai, Chief of NDRC, agreed to hold a ministerial meeting at least once per year.⁴⁴ During Wen's visit to Tokyo in April 2007, Amari and Ma organised the first Japan-China energy ministers' policy talks. Indeed, working-level policy dialogues have been organised since 1996, but there were no ministerial-level linkages.⁴⁵ Accordingly, the Amari-Ma meeting was an important step in achieving energy cooperation and managing energy-related affairs. During the meeting, Amari and Ma signed a Joint Statement on Enhancement of Cooperation in the Energy Field, which confirmed cooperation in energy saving, coal, nuclear power generation, new energy/ recyclable energy, and so on.

Various activities for bilateral cooperation have been launched on the basis of ministerial agreements. The first is the establishment of model projects for energy conservation. The energy ministers reached an agreement to launch the Energy Conservation and Environmental Business Promotion Model Project. The project aimed at searching for business matching between Japanese and Chinese enterprises, which would be a model for improving energy conservation in China. METI and NDRC set up a committee for administering the joint works, and individual model projects have been announced at the conservation forums. Secondly, both governments agreed to begin joint research on energy policy. The Institute of Energy Economics, Japan and the Energy Research Institute of the NDRC exchanged the memorandum of understanding regarding joint research. The research covered the Energy Conservation Law and relevant legal systems as well as a bench-mark analysis of high energy consumption industries in China. Thirdly, the Japanese government agreed to strengthen cooperation in human resources development for energy conservation. The government accepted 300 trainees from Chinese

⁴⁴ *Kyodo News*, December 17, 2006.

⁴⁵ The first China-Japan energy policy dialogue was held in 1996. The eighth dialogue was held in Tokyo in September 2006.

government agencies and organisations for a three-year period in order to enhance human capabilities to manage institutions for energy conservation.

Sino-Japanese collaboration in energy conservation has had effects on the formation of energy policy in China. In October 2007, the Chinese government amended the Energy Conservation Law, which strengthened regulations on energy conservation. Before this amendment, METI accepted a Chinese mission in October-November 2006 regarding the amendment of the Law. METI also accepted more than 150 trainees from central and local governments and supervision organisations for energy saving in 2006-07. The expertise and knowledge about Japanese experiences learned from these trainings contributed to the content and implementation of the amended Energy Conservation Law.⁴⁶

Difficulty in developing formal institutions

The energy conservation forum has served to launch cooperative projects in a wide range of areas. The number of cooperative projects increased from ten including five business promotion model projects in the second forum in 2007 to 42 including 22 model projects in the fourth forum in 2009. Not only did the target of cooperation expand to water treatment and resource recycling but geographical area for cooperation in China also extended from coastal to inner areas. Moreover, collaboration between Japanese and Chinese industrial associations produced concrete projects at the fourth forum. This move could be regarded as a significant contribution to advancing comprehensive cooperation through institution-building at the industrial level.

The development of the conservation forum derived from a coincidence of interests between the Japanese government/ industry and the Chinese government. The Japanese government desired to support human resource development and the transfer of Japanese institutions and experiences in energy conservation with an expectation that such commitments would lead to expanding business opportunities for Japanese firms in China. The Japanese business circles, which had a strong desire to expand operations in the Chinese market, positively responded to such interests. For instance, major Japanese companies set up the Japan China Business Alliance for Energy Saving and Environmental

Protection (JC-BASE) in December 2006 in order to tackle energy-saving cooperation flexibly and speedy.⁴⁷ This cross-industry association aimed to strengthen energy-related cooperation by conducting concrete activities and research as well as showing possible solutions to disturbances and problems in promoting cooperation. The JCEA set up direct linkages with Chinese local governments, targeting the Shandong Province, Tianjin, and Chongqing.⁴⁸ The association has conducted activities including the acceptance of an economic mission and a survey on the promotion of energy saving. Since local governments were the actors who really implemented energy-saving projects, the establishment of direct linkages with them was important for producing practical outcomes from cooperation.

The Chinese government had a strong desire to introduce Japan's advanced technologies for energy efficiency. This desire was shown in its positive commitments to the forum. Ma Kai, Chief of NDRC, took the lead in holding the China-Japan energy cooperation seminar during Premier Wen's visit to Tokyo in April 2007. Ma accompanied senior executives of some 50 Chinese enterprises including the big three oil companies – CNOOC, CNPC, and Sinopec –, and the executives joined the seminar. Ma's action derived from a hope to promote practical, business-level cooperation on the background that concrete projects did not proceed despite an agreement at the first conservation forum.⁴⁹ The Chinese side's willingness to promote practical cooperation was seen in commitments to the forum's cooperative projects. Since the forum began with Japanese proposal, all cooperative projects announced at the second forum were based on suggestions from the Japanese side. However, this situation gradually changed, and nearly

⁴⁶ Interview, METI, February 2010, Tokyo.

⁴⁷ Some 250 leading corporations including Toyota Motor Corp., Toshiba Corp., and Tokyo Electric Power Co. joined the JC-BASE as the founding members.

⁴⁸ For instance, the association supported the acceptance of economic missions from the Shandong Province in July 2007 and March 2008. These missions aimed at setting up business projects with Japanese counterparts in the energy-saving field. The JCEA also conducted a survey on the promotion of energy saving in China targeting the Shandong Province in 2007. Interview, Japan-China Economic Association, Beijing Office, March 2009, Beijing.

⁴⁹ Manabu Takamizawa, *Shin Jidai no 'Nogen' Furontia* [The 'energy' frontier in the new age] (Tokyo: Riburo, 2007), 138.

half of the cooperative projects were suggested by the Chinese side at the fourth forum.⁵⁰ Thus, the conservation forum has deepened and broadened bilateral cooperation largely because the forum coincided with the Chinese government's motivation to promote business-oriented pragmatic cooperation for absorbing advanced Japanese technologies for energy efficiency.

In contrast to steady progress in business-oriented bilateral institutions, politics-oriented, governmental institutions have faced difficulty in progress. Although both governments agreed to organise an energy ministers' meeting at least once per year, the meeting was held once in 2007. Since Japanese energy minister (METI minister) has attended the conservation forum every time, the minister has had a direct meeting with his Chinese counterpart at least when the forum was held in China. However, this is not an institutionalised meeting.

The lack of a ministerial institution between China and Japan is peculiar in comparison that between Japan and India. The first Indian-Japanese energy ministers' meeting was held in April 2007, exactly the same month as that between China and Japan. The second, third, and fourth meetings were organised in July 2007, September 2008, and April 2010, respectively. Furthermore, the ministers agreed to establish the steering committee to articulate the overall direction of the meeting as well as a working group in five policy areas (electricity & power generation, energy efficiency, coal, renewable energy, and petroleum & natural gas). The first meeting of the working groups were organised in March 2009. Thus, intergovernmental institutions between India and Japan have shown steady progress under the ministerial initiatives.

The peculiarity in the energy field is also apparent in comparison with the environmental field, which has been regarded as a parallel to the energy sector in growing bilateral cooperation after the mid 2000s. The environmental ministers of China and Japan have organised a bilateral meeting in the sidelines of the Tripartite Environment Ministers Meeting (TEMM) since 2006, and confirmed basic policy directions through this direct

⁵⁰ Interview, METI, February 2010, Tokyo.

communication channel.⁵¹ Furthermore, the Japan-China Joint Committee on Environmental Protection and Cooperation has held a meeting annually to coordinate various cooperative projects between the two countries. Under such high-level institutions, working-level official networks have been organised in specific policy areas.⁵² The formation of networks at the working level facilitated communications among governmental officials specialising in particular policy areas, leading to the implementation of practical measures in a swift manner.

The formal reason why Japan and China failed to develop a ministerial meeting lies in organisational reforms in China. Chinese energy administration has been extremely complicated and fragmented. The organisational reform in 2003 led to the redistribution of energy policymaking tasks into as many as 13 ministries and commissions.⁵³ In 2008, an additional organisational reform was implemented. As a consequence, the National Energy Administration (NEA) was newly established in August 2008 as an independent administrative body within the NDRC, which is in charge of coal, oil, natural gas, nuclear power, as well as new and renewable energy.⁵⁴ The Chinese government preferred to promote energy cooperation through this agency. However, the head of this bureau is a vice-minister, and accordingly it became difficult to hold a ministerial meeting.⁵⁵

In addition to this formal reason, a substantial reason existed in a political issue: the East China Sea problem. At the first ministerial meeting in April 2007, Amari and Ma confirmed to accelerate works on the oil field following 5-point agreements reached at a

⁵¹ The TEMM is an intergovernmental institution comprising China, Japan and South Korea whose first meeting was held in 1999. The TEMM has functioned as a forum to confirm a common front on global environmental issues and the necessity of joint efforts to protect the regional environments, and a joint communiqué has been issued at every annual meeting.

⁵² In March 2007, the first meeting of directors-general in charge of waste materials and recycling was organised, followed by the second meeting in March 2008. A directors-general meeting in the field of environmental contamination also began in September 2007. At the meeting, the directors-general discussed practical matters in major fields such as water environment partnership, co-benefit cooperation, and photochemistry oxidant.

⁵³ Kong Bo, "Institutional Insecurity", *China Security* (Summer, 2006): 69-70.

⁵⁴ The NEA also assumes administrative works of the National Energy Commission (国家能源委员会), which was established in January 2010 as the highest decision-making body of the energy policy.

⁵⁵ Interview, METI, February 2010, Tokyo.

summit meeting.⁵⁶ In June 2008, both governments reached a political agreement on cooperation in the East China Sea. The agreement contained joint development in the northern part of the East China Sea and the participation of Japanese legal persons in the development of Chunxiao (Japanese name: *Shirakaba*) oil and gas field.⁵⁷ This agreement was regarded as a good indication that China is sincere about joint exploitation in dispute maritime territories.⁵⁸ However, the issue has remained a critical diplomatic problem. It took more than two years to hold a first formal talk at the director-general level to discuss a treaty to implement the agreement in July 2010. Furthermore, China continued to expand its hydrocarbon activities in the Tianwaitian (Japanese name: *Kashi*) gas field, and the Japanese government protested that Chinese activities run counter to the agreement. The Chinese government refuted that the gas field in question lies in Chinese waters and that China has an inherent right to develop it.

The Chinese government found interests in promoting practical cooperation with Japan in energy conservation. However, it has been reluctant to talk over the East China Sea problem. Such a preference led to avoiding the holding of an energy ministers' meeting where the East China Sea problem would be taken up as an agenda. The Japan problem is one of the most sensitive issues for China, and the Chinese government needed to avoid concessions for Japan on vital diplomatic affairs.⁵⁹ Public opinions and expert views have become increasingly crucial matters for Chinese policymakers in formulating external policy. This is particularly the case when national sentiments or crucial economic interests are involved such as the East China Sea problem.

⁵⁶ *Reuters*, April 12, 2007. At the summit meeting on April 11, 2007, Japanese Prime Minister Abe and Chinese Premier Wen reached common understanding for appropriately handling the issue of the East China Sea such as “Conduct joint development as a provisional framework until the final delimitation based on principles of mutual benefit principles”, “Conduct joint development at relatively large waters which is acceptable for both sides”, and “Accelerate the process of consultation and aim to report concrete measures on joint development to the leaders in this fall”. See <<http://www.mofa.go.jp/region/asia-paci/china/pv0704/joint.html>>.

⁵⁷ “Japan-China cooperation in the East China Sea”. Available at <http://www.mofa.go.jp/mofaj/area/china/higashi_shina/press.html>.

⁵⁸ Mingjiang Li, “China and Maritime Cooperation in East Asia: Recent Developments and Future Prospects”, *Journal of Contemporary China* 19, no.64 (2010), 304.

⁵⁹ Susan L. Shirk, *China: Fragile Superpower* (Oxford: Oxford University Press, 2007), ch.6.

Conclusions

Sino-Japanese relations have been one of the most critical issues in the study of East Asian affairs. Past research on the relations tended to direct its focus to conflicting patterns and rivalry relations. In specific policy areas, however, the two states have formed complicated linkages in which conflicting and cooperative patterns of action exist concurrently. This article has highlighted such linkages in the energy sector, a policy field that has an increasing importance in the world economy and politics. It examined the intricate development of institutions designed to realise cooperation at the bilateral and regional levels by paying attention to the objective and approach of visions and policies that the Japanese and Chinese governments have adopted.

The Japanese government has regarded growing energy demand in Asia and China as a challenge that would have serious influences on its own energy security. Such a perception encouraged the government to initiate bilateral and multilateral institutions to manage energy affairs and promote cooperation. The Japanese government took the lead in launching an ASEAN+3 energy ministers' meeting and an EAS energy ministers' meeting. Under the two institutions, forums and work streams were organised to discuss specific policy issues such as oil stockpiling and energy efficiency, and the Japanese government provided financial and intellectual support for these activities. Japan, as a regional leader in energy affairs, sought to diffuse international norms developed under the IEA and IEF, and transfer its practices and experiences in oil stockpiling and energy efficiency to other Asian countries. In bilateral relations, the energy conservation forum was launched in 2006 so as to promote business-oriented cooperative projects. The Japanese government, through the initiation of the forum, aimed at re-establishing trustworthy relationship with the Chinese government and expanding business operations in the rapidly-growing Chinese market. The Japanese government also strove to set up a bilateral energy ministers' meeting, and its first meeting was held in April 2007. On the basis of the ministerial meeting, the government implemented projects and measures to transfer technologies and practices that the Japanese public and private sectors accumulated as feasible institutions for energy conservation. Importantly, the ministerial meeting aimed to discuss various energy-related matters including the East China Sea problem. Thus, the Japanese

government pursued integrated objectives of advancing commercial interests, demonstrating regional leadership, and strengthening political dialogues with China. In its approach, the government sought to diffuse international norms and specific institutions derived from its experiences and practices.

The Chinese government responded positively to Japan's initiatives in forming bilateral linkages in energy conservation. The Chinese government took advantage of business-oriented institutions by sending a mission of energy-related companies and making constructive proposals to deepen business linkages. Such actions were motivated to reduce constraints on economic development from rising domestic energy demand by introducing Japan's advanced technologies and practices. In contrast to such assertiveness in business-oriented institutions, the Chinese government has been cautious to developing formal institutions where politically sensitive issues such as the East China Sea problem would be taken up. In multilateral frameworks, the Chinese government took the lead in advancing a natural gas forum under the ASEAN+3 framework. Yet, the government did not show keen interests in other forums under the ASEAN+3 and work streams under the EAS. This weak interest in multilateralism derived from strong preferences for bilateral arrangements in handling energy issues. Thus, the Chinese government's interest was directed towards creating feasible environments for acquiring advanced energy-saving technologies at bilateral settings, and fostering favourable environments for natural gas business at multilateral settings. The Chinese government pursued such an objective in pragmatic manners: encouraging business groups' positive involvement, avoiding discussions on politically sensitive matters, and pursuing realistic outcomes from multilateral talks.

Lastly, it is useful to confirm implications of this study for the broader research. The steady expansion of energy saving projects in bilateral relations indicates that the identification of common interests produce substantial outcomes in cooperation. Accordingly, Japan and China need to find policy areas for common interests probably such as environmental protection, food security, and the prevention of epidemic diseases. The importance of common interests is applicable to multilateral cooperation, but multilateral frameworks make the situation more complicated. As this study found, the Chinese government was less willing to cooperate with Japan at the multilateral level. This

was largely because support for Japan-tailored multilateral institutions would produce more benefits to Japan even if China could get benefits from such institutions. While Japan could acquire political gains as the provider of regional public goods, China could not acquire such gain. Accordingly, the Chinese government focused on getting economic gains by showing selective cooperation. Thus, each of the two great powers in East Asia is reluctant to play a substantive role in a multilateral institution where such an institution was created by the other's decisive leadership. This implies that it is desirable to set up collaboration by the two states at the initial stage of institution-building.

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