

Sino-Japanese Relations Over the East China Sea: The Case of Oil and Gas Fields

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Structured Abstract

Article Type: Research Paper

Purpose—The East China Sea (ECS) dispute is characterized as a mixture of various issues, at the forefront is the issue regarding political sovereignty over the Diaoyu/Senkaku islands and the economic benefits of the surrounding oil and gas fields. The purpose of this article is to focus on the energy potential in the ECS and argues that the nature of the disputes has not changed in the past two decades and has always been on maritime delimitation.

Design, Methodology, Approach—Different from both the macro-level regional international relations and the micro-level domestic narratives, this article adopts a meso-level political economic analytical framework. By adopting historical institutionalist approach, this study examines how China and Japan interact over the issue of gas field in the East China Sea.

Findings—The maritime dispute is constrained by growing Sino-Japanese economic relations. In order to maintain a critical and deepening economic relationship between the two countries, China and Japan have adopted the tactics of self-constraint and have limited their charges of the other side's wrongdoing to certain level. The status of the oil and gas fields in the East China Sea is thus made quite stable and both sides will give tacit consent to the disagreement on boundary delimitation without taking further substantial action.

Practical Implications—This article provides a different perspective in analyzing

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Journal of Territorial and Maritime Studies / Volume 3, Number 2 / Summer/Fall 2016 / pp. 71–87 /
ISSN 2288-6834 (Print) / © 2016 McFarland & Company, Inc.

Sino-Japanese relations. For policy makers, it proposes a political logic of conflict management between two countries that economic interaction may not well facilitate political negotiation but it at least prevents political conflict from escalating

Original Value—This article enriches our understanding of the constant nature of maritime dispute between China and Japan—with maritime delimitation as the bottom line, thereby realizing that although the tension is unavoidable there are always possibilities for negotiation and dialogues.

Key words: East China Sea, maritime dispute, maritime delimitation, Sino-Japanese relations, 2008 Principled Consensus

Introduction

The East China Sea dispute is characterized as mixed due to involvement of maritime boundary delimitation, ownership of the disputed islands, exploitation of energy resources, and fisheries. Two issues occupy the center of the dispute between China and Japan over the East China Sea (ECS): political sovereignty of Diaoyu/Senkaku islands and the economic benefits of the oil and gas fields. Although these two concerns are intertwined with each other, they have distinctive core claims and are not always brought up together. The former is about the ownership of these small islands, and the latter focuses on the energy potential. Hence, they are highly correlated but can be explored independently and generate policy implications for Sino-Japanese relationship. This article focuses on the issues of oil and gas fields in the ECS and argues that the nature of the disputes has not changed in the past two decades and has always been centered upon boundary delimitation. China and Japan have different ideas regarding where the border line should be drawn but have not presented any new written or verbal asseveration beyond that. The maritime controversies are constrained by growing Sino-Japanese economic relations so that they have at most led to the suspension of interaction instead of stirring radical conflicts.

Recently Japan has seemed to shift their concerns from energy resources to national security in recent gas and oil development in the East China Sea but their critique of China is not an allegation with concrete proof. In addition, the territorial dispute of the Diaoyu/Senkaku islands has not been involved in the recent debates in the ECS. In order to maintain critical and deepening economic relationship between two countries, China and Japan have adopted the tactics of self-constraint and limited their charges of other side's wrongdoing to certain level. The status of the oil and gas fields in the ECS will then be quite stable and both sides will give tacit consent to the disagreement on boundary delimitation without taking further substantial action.

Some scholars argue that the convergence between the nationalist sentiment of the public on one hand and the material interests in resources and security of the policy makers on the other hand makes it very difficult for political leaders to manage the ECS disputes.¹ Nonetheless, the ideational and material dimensions seem to be

independent as time passes. It demonstrates that both China and Japan distinguish between these issues. On the ECS issues, there are two groups of arguments. On the one hand, some scholars adopt a macro-level perspective of the international relations of East Asia and argue that the interaction between China and Japan on ECS reflects an ongoing power shift in the region, which is China's rise and Japan's decline.² On the other hand, there are micro-level "domestic narratives" indicating that both countries deal with this issue in response to domestic pressures, namely, from an assertive posture against Japan in Chinese society as well as among Japan's nationalist right-wing groups.³ One relevant thesis is that the United States plays a key role in easing the tension between China and Japan on ECS, but the changes in Japan's China policy eventually would come from within.⁴ This article takes a meso-level political economic approach and contends that economic interaction may not facilitate political negotiation well but it at least prevents political conflict from escalating. The complex and fluctuating nature of oil and gas field dispute in the ECS exhibits that there is the overarching limiting factor of the Sino-Japanese economic relationship prohibiting the deterioration of the issue.

This article begins with brief description of the early stage of the long-standing dispute in offshore oil and gas activities in the ECS and how China and Japan reached a principled consensus in 2008. The following section presents the latest development of the dispute in the post-consensus era and details the interaction between the two sides. In the next section I place the dispute within a broader context of the growing nature of the China-Japan economic relationship and demonstrate how the tension is constrained by examining the economic data. The article concludes with a discussion of the broader implications for trust-building, maritime cooperation, and Sino-Japanese relationship. This article enriches our understanding of the constant nature of the maritime dispute between China and Japan—with maritime delimitation as the bottom line, thereby realizing that although the tension is unavoidable there are always possibilities for negotiation and dialogues.

Dispute Over Oil and Gas Fields in the East China Sea

The territorial dispute stems from disagreement over where the maritime delimitation between the two countries is and where their economic exclusive zones (EEZ) lie. While Japan claims that the sea border should be drawn equidistant between the two countries, China insists its claim on the natural extension of its continental shelf under its jurisdiction. China's claim brings its EEZ much closer to Japan's coast. The distance between two claim lines is roughly 100 miles. Due to technological, economic, and political reasons, offshore drilling for oil and gas did not begin until the mid-1940s. In 1961 American geologist K. O. Emery and Japanese geologist Hiroshi Niino suggested for the first time that the ECS was rich in oil resources and later in 1968 they published an article confirming that the continental shelf of the ECS was abundant in hydrocarbon resources.⁵ In 1966 the UN Economic Commis-

sion for Asia and the Far East organized the Committee for the Co-ordination of Joint Prospecting for Mineral Resources in Asian Offshore Areas to assist investigations of the ECS. The findings were published in the "Emery Report" in 1969.⁶ Although there is no clear data available, an early estimate of potential oil deposits created a figure for a potential 7.5 billion barrels. A more recent estimate shows that there may be about 100 billion barrels. There are also 200 billion cubic meters of natural gas reserves. For resource-poor Japan and import-dependent China, the oil and gas deposits in the contested area are critical to their energy security.⁷

While the energy reservoir was investigated in late 1960s, the dispute over the gas and oil fields did not emerge until the 1980s. China began to explore the ECS in the 1970s and found the Xihu Trough which is located in the center of ECS basin and 450 kilometers southeast of Shanghai. Since 1980, China has initiated the development projects in Pinghu, Chunxiao (Shirakaba in Japanese), Tianwaitian (Kashi in Japanese), Duanqiao (Kusunoki in Japanese), Canxue, Baoyunting, Wuyunting, and Kongqueting. In addition, China also discovered the Yuquan, Longjing, and Hushan oil/gas fields. The Pinghu field was the first field put into operation. It has been transporting natural gas to Shanghai since 1998. China has explored and developed the fields of Duanqiao, Canxue, Chuanxiao, and Tianwaitian independently without foreign investment. In 2003, Sinopec and CNOOC signed contracts with Royal Dutch/Shell and Unocal Corporation to explore three blocks and develop two in the Xihu Trough with the initial investment of 85 million USD. The project, however, was cancelled after a year and Royal Dutch/Shell and Unocal Corporation indicated that the decision was based simply on commercial considerations. In April 2004, China's minister of foreign affairs, Li Zhaoxing proposed to develop them jointly but was rejected by the Japanese government. Instead, Japan authorized the drilling rights to Teikoku Oil Company to develop the area adjacent to the median line claimed by the Japanese government. It demonstrates that Japan has shifted to a stronger position of confronting China.

The tension has since been intensifying due to the urgent energy needs of both countries. In May 2004 China granted exploration rights in ECS to several companies and initiated serious exploration in the Chunxiao gas field which is located on the Chinese side and four kilometers from the median line. In May 2005, Japan's Ministry of Economy, Trade, and Industry authorized Japanese companies to explore natural gas in contested areas. In September 2005, both the ruling coalition and the opposition party in the Japanese legislature prepared bills to propose measures for protecting Japanese drillers and fishermen in the disputed waters. During this period Japan had frequently detected Chinese naval vessels, exploration ships, a nuclear submarine, and aircraft in this area. Sino-Japanese understandings in the ECS further deteriorated in April 2005 due to anti-Japanese demonstrations in several local cities in China. Later, in October, Japanese Prime Minister Koizumi Junichiro visited the Yasukuni Shrine and in December Minister of Foreign Affairs Aso Taro commented that the increase in China's military power is a threat to Japan's security. As a result Japan stopped issuing loans to China and China refused to hold high-level meetings with Japan. Therefore, the talks on the ECS suspended.

Negotiations between China and Japan resumed several months later in March 2006 as China proposed a new joint development project with a focus on two areas. Japan rejected the proposal and asked China to stop all exploration and development activities in the field. Meanwhile China's Sinopec was already officially producing up to 300,000 cubic meters of gas a day from the Chunxiao field since January 2006 during the period of stalled discussions. In April, China laid pipelines and cables around the Pinghu field located very close to median line claimed by Japan and issued a ban on ships entering the area. Japan argued that China violated Japan's sovereignty and the United Nations Convention on the Law of the Sea (UNCLOS) which took effect in 1982. China responded that the area was not covered by the UNCLOS. China ratified the UNCLOS on June 7 1996 and Japan followed soon after, signing on June 20. This leads to the current development that further complicates the ECS issue today, namely that both sides agree to follow UNCLOS but interpret its articles differently. In fact, UNCLOS has not only provided a legal and normative discourse on Asia's maritime affairs but has also created or magnified maritime disputes in Asia. UNCLOS does not define clearly how to solve the disputes and only urges the parties involved in disagreements on the demarcation of EEZ and/or delimitation should negotiate on the fair principle, seek acceptable solutions to all, and avoid anything harmful to an eventual agreement.⁸ When Abe Shinzo became Prime Minister in September he tried to mend Japan's relationship with China through his first official visit to Beijing (traditionally Japan's prime ministers make their first official visit to the U.S.) in October. It was also the first time the top leaders of both countries had met since October 2001.⁹ The Chinese authority also regarded Abe's visit as a turning point in declining bilateral relations.¹⁰ Both governments announced a joint statement and confirmed to "accelerate the process of consultation on the issues of the ECS, adhere to the broad direction of joint development and seek for a resolution acceptable for the both sides."¹¹

Overall, on the issue of natural resources in the ECS, both sides have made several principle claims. For China, they are straight baselines connecting base-points on the mainland coast and the outermost coastal islands; a territorial sea extending 12 nautical miles from these baselines and from offshore islands; a continuous zone extending 12 nautical miles from territorial sea; a continental shelf extending throughout the natural prolongation of its land territory to the outer edge of the continental margin. Japan's claims are "a system of straight baselines; a 12 nautical mile territorial sea extending from these straight baselines; an unspecified continental shelf; and a 200-nautical mile EEZ from the straight baselines."¹²

In addition, between June 2006 and April 2007, China National Offshore Oil Corporation (CNOOC) had announced production plans from several gas fields, including Chungxiao, Bajiaoting, Pinghu, and Tianwaitianthat. These actions also incentivized Japan to facilitate further negotiation. Despite a turbulent political relationship between China and Japan, the Department of Asian Affairs of China's Foreign Affairs and the Asian and Oceanian Affairs Bureau of Japan's Foreign Affairs Ministry had held six rounds of formal meetings between 2004 and 2006.¹³

When former Chinese Prime Minister Wen Jiabao visited Japan in April 2007,

the ECS issue was brought up again and China and Japan agreed to “conduct joint-development as a provisional framework until the final delimitation based on principles of mutual benefit principles ... at relatively large waters which is acceptable for both sides.”¹⁴ They set up a clear schedule and hoped to report concrete measures on joint development to the leaders in the fall of 2007. Former Japanese Prime Minister Yasuo Fukuda visited China in December 2007 and a consensus on the ECS issue was again announced. It seemed that both countries could arrive at a win-win situation if they put their differences and the need for a comprehensive solution aside. A workable partial solution could be realized with the improvement in the bilateral relations. Unfortunately, both Wen’s Tokyo trip and Fukuda’s Beijing trip in 2007 did not yield much concrete progress.¹⁵ They only reached the consensus on cooperation without influencing the legal status of both sides before the delimitation problem could be solved.

In Hu Jintao’s Japan visit in May 2008, he mentioned that prospects lie ahead for China and Japan to jointly explore the hydrocarbon resources under the ECS without hurting the legal status of either side.¹⁶ Nonetheless, there was only one very vague expression “to work together to make the East China Sea a ‘Sea of Peace, Cooperation and Friendship’”¹⁷ and no progress was reported. Surprisingly, a month after Hu’s visit, the Spokesperson of China’s Foreign Affairs Ministry Jiang Yu announced that China and Japan reached a principled consensus on the East China Sea Issue through consultation on equal footing on June 18, 2008 (2008 Principled Consensus) and was released concurrently by the Ministries of Foreign Affairs of China and Japan.¹⁸ Both countries made concessions in order to reach an agreement on solving the problem. China agreed Japan’s legal person to join the existing development plan in the Chunxiao field, which is located four kilometers on the Chinese side of the median line boundary claimed by Japan while Japan agreed to include areas east of the median line for joint development. That is to say, the Chunxiao field is not included in the joint development area, as described in the section 2 of the 2008 Principled Consensus. However, as serious criticism was aroused in Chinese society both parties made efforts to clarify the ideas of cooperation and joint-development. The Sino-Japanese relationship has long been constrained by anti-Japanese sentiment among Chinese public due to the memory of Japan’s invasion between 1937 and 1945. On the formal statement on Sino-Japanese relations, including the 1972 joint statement, 1978 friendship treaty, 1999 partnership declaration, and 2008 joint statement, it shows that Beijing has an incentive to keep a good relationship with Japan and offer at least implicit concessions. Against this background, the formal documents between China and Japan exhibit deliberate ambiguity which allows the Chinese authority to claim that they have not reconciled with Japan. Hence, the nature of the 2008 Consensus is fragile and there have been no developments in turning it into an international agreement due to the lack of reciprocity.¹⁹

In February 2010, the Japanese government worried that the gas under the areas claimed by Japan would be siphoned away by China’s gas production on the Chunxiao field unilaterally. It threatened to take legal action against China. China disregarded the warning and kept moving drilling equipment to the platform above the

Chunxiao field. In September, there was a trawler incident that occurred close to the waters of Diaoyu/Senkaku islands and soon spiraled into a major diplomatic confrontation. Anti-Japanese demonstrations erupted in many Chinese cities. Sino-Japanese relationship had been suffering from the aftermath of this incident until early 2011. The Fukushima disaster that struck northeast Japan heavily provided an opportunity for both sides to resume exchanges. While Japanese foreign minister Matsumoto Takeaki met Chinese vice-president Xi Jinping in Beijing in July 2011, they agreed to work on improving communication and building up a crisis management mechanism. The proposal was later confirmed again by Japan's Prime Minister Noda in his Beijing trip in December.²⁰

Recent Developments Since Late 2012

In September 2012, the Japanese government spent 26.2 million USD purchasing three of five uninhabited islands in the ECS from a private Japanese owner. This action led to an escalation in a dispute that had been pacified for several years.²¹

In December 2012, China submitted the information about the limits of the continental shelf beyond 200 nautical miles from the baselines to the Commission on the Limits of the Continental Shelf of United Nations. Japan protested and asked the Commission not to consider China's submission. China provided more information to strengthen their standpoint.²² In July 2013, China's president Xi Jinping stressed that the building of maritime power is a critical part of socialism with Chinese characteristics.²³ Japan's ruling party, Liberal Democratic Party, soon made decision to deny China's construction and projects in the ECS. In November 2013, China announced an Air Defense Identification Zone covering a large swath of airspace over the ECS and the disputed islands, overlapping that of Japan's. Later in December, Japan's Prime Minister Abe Shinzo visited the Yasukuni Shrine and triggered a bitter argument. A report by the International Crisis Group argues that Sino-Japanese tensions have been escalating and transforming into confrontation which seemed very difficult to solve by diplomatic engagement.²⁴ In November 2014, China and Japan's top leaders eventually met in the APEC summit following two years of Chinese animosity toward Japan's Prime Minister Abe Sinzo and the nationalization of the Diaoyu/Senkaku islands. It was an ice-breaking talk but the atmosphere was awkward since Chinese president Xi neither smiled nor responded to Abe's conversation during the handshake.²⁵ Several days before the summit meeting, Chinese Councilor Yang Jiechi met Japan's National Security Advisor Yachi Shotaro and reached a four-point principled agreement on handling and improving bilateral relations. Point three indicates that both sides have acknowledged the different positions on the ECS and agreed to prevent the tension from escalating through dialogue and consultation. They would establish the mechanism of crisis management in order to avoid unforeseen emergencies.²⁶ After having no official interaction for two years and two months, the foreign ministers of China and Japan, Wang Yi and Kishida Fumio, also held formal talks and promised to boost bilateral cooperation by resum-

ing various high level meetings.²⁷ It seemed that China and Japan were achieving a rapprochement but unfortunately Japan's Foreign Affairs Minister maintained that there was no territorial dispute over the islands.²⁸ Although the Chinese embassy in Tokyo strongly criticized Mr. Kishida for his remarks, Mr. Kishida emphasized that the four-point consensus was a result of negotiations between two countries. The document should be respected but not legally binding.²⁹ Obviously, each side has taken advantage of interpreting the ambiguous consensus. China claims that Japan has agreed with them that there is a dispute over the contested area; Japan has insisted its long-lasting principles when recognizing that both sides have different views and should work together to solve the problems.

In March 2015, China and Japan held security talks for first time in four years (since January 2011). Both of them realized very clearly that there have been fears that a clash between Chinese and Japanese paramilitary vessels patrolling the contested area could trigger a conflict.³⁰ It is imperative for them to establish a crisis management mechanism, such as a hotline, to keep friction from escalating into confrontation. In June, China and Japan negotiated to establish a maritime communications mechanism (MCM), primarily a defense arrangement.³¹ In fact, negotiations on setting a MCM began in April 2008, and both sides reached the agreement on three points after having meetings in November 2009, July 2010, and June 2012.³² The January meeting yielded a significant development: the change in scope from just a maritime communication mechanism to maritime and aerial communication mechanism. Since the incidents in the air are an increasing concern,³³ the scope of MCM has extended to aerial communications in the meeting in January 2012. Meeting was suspended in June in that China refused to agree with Japan that territorial waters and airspace should be excluded.

In November, the defense ministers from both sides, Chang Wanquan and Nakatani Gen, held a meeting for the first time since June 2011. They affirmed the importance of this mechanism to avoid accidental clashes within territorial sea and national airspace (Diaoyu/Senkaku Islands are excluded). Although Mr. Nakatani commented that defense cooperation and exchanges between China and Japan are necessary for stability in Asia, no significant progress has been substantiated. The dispute remains on whether or not the proposed system should cover the Diaoyu/Senkaku islands.³⁴ China-Japan negotiations on the ECS issues exhibit the on-and-off nature. The lack of a trustful commitment to constrain provocative behaviors demonstrates that political will matters the most in managing tension over the region. The significance of signing these agreements and establishing communications mechanisms is greatly reduced when such activities are more political than operational. Some may view these actions as Japan and China's commitment to manage the dispute, but tensions will continue so long as the dispute on the sovereignty of Diaoyu/Senkaku islands remains.

In July 2015, Japan's Chief Cabinet Secretary Suga Yoshihide protested that China has been constructing gas field facilities in disputed territory in the ECS since 2013. The ambitious Chinese gas project is close to Japan's proposed median line.³⁵ Japan made similar remarks when China's project first initiated two years ago but

have seen no further action.³⁶ China's Foreign Ministry Spokesperson Hua Chunying responded very briefly in a regular press conference that "China's relevant activities are in waters within China's jurisdiction beyond any dispute. The protests by Japan are groundless, and China does not accept the unreasonable request of Japan."³⁷ Japanese Prime Minister Abe Shinzo said in a Meeting of the House Representative's special committee on security legislation that "I strongly object to (China) repeatedly going ahead with unilateral development." In the same meeting, Japan's defense minister Nakatani Gen indicated that China "could install a radar system on the platform or use it as an operating base for helicopters or drones conducting air patrols." Japan was protesting that China has set up military equipment on the ocean exploration platform.³⁸ It is the first time that Japan has shown security concerns over China's installment in the gas field in the ECS. On July 21, Japan released its 2015 annual defense white paper which stresses that "Maritime security is of critical importance to Japan. ... Japan relies on sea transportation of import energy resources. Accordingly, ensuring secure sea lanes is vital for the survival of the nation." The frequent presence of Chinese vessels and aircrafts "are dangerous acts that could cause unintended consequences."³⁹ Japan's foreign ministry also released a map and aerial photographs of China's 16 drilling platforms and the Chief Cabinet Secretary Suga Yoshihide commented that "it is extremely regrettable that China should conduct unilateral development of resources."⁴⁰ The Chinese government has expressed strong discontent and said the document has deliberately played up the "China threat" thesis and stirred up tension.⁴¹ While looking at the map released by the Japanese Ministry of Foreign Affairs to clarify the white paper, all structures lie on the Chinese side of the equidistance line which Japan has always insisted. It means these Chinese activities were in uncontested waters.⁴²

Interestingly, Japan's Agency for Natural Resources and Energy of the Ministry of Economy, Trade, and Industry have both indicated that they do not believe there is a huge reservoir of energy close to the geographical median line claimed by Japan in the ECS. If this is true, it seems incomprehensible that China has spent so much money constructing these structures.⁴³ It was the first time the Japanese side made a statement which underestimated the importance of natural resources in the ECS. Prime Minister Abe also charged China's misbehavior of running against 2008 Principled Consensus while defending the controversial new security bill in a special meeting of the Upper House. It would help Abe to push the bill through by letting the public feel the changing external security environment and confirm the necessity of the bill. While China and Japan's foreign ministers met at the ASEAN meeting in Malaysia in August, they still held same point of views and had no consensus. In the China-Japan-South Korea trilateral summit meeting in November, Abe again raised the issue of China's unilateral development of the gas field in the ECS and urged China to follow the 2008 Principled Consensus. In a sideline meeting between China and Japan's foreign ministers, Wang Yi kept a tough tone on the issue.

In October, China formally rejected Japan's draft agreement since both sides had different ideas regarding inclusion of territorial waters and airspace.⁴⁴ In December, the fourth round of high level consultations on maritime affairs was held in

Xiamen city and officials from the two countries ministries on foreign affairs, defense, transportation, security, environment, energy and aquatic product attended.⁴⁵ Unfortunately, there was no significant breakthrough due to long-lasting dispute on China's development in the ECS gas field.

In the past two years, China and Japan have frequently interacted at various levels but they have not made any important advancement in resolving the differences. Nonetheless, there is a positive sign that the ties between Beijing and Tokyo are thawing and both sides would at least like to communicate. Due to Japan's nationalization of Diaoyu/Senkaku islands in September 2012 and China's unilateral declaration of an air defense identification zone in November 2013, the Sino-Japanese relationship had been frozen and skirmishes erupted regularly. Not until Japan's former Prime Minister Fukuda made a secret visit to Beijing in mid-2014 have the tensions eased. In recent discussions it has become very clear that the dispute remains focused on the very fundamental disagreement over the maritime delimitation, but both sides have refrained from stretching the dispute beyond the issues of ECS. That is to say, dialogue regarding economic sanctions such as China's suspension of rare earth exports to Japan in 2010 did not take place.

The ECS Issues Within the Context of Increasing China-Japan Economic Interaction

When we place the dispute of gas fields in the ECS in a broader context of Sino-Japanese relations with a focus on economic interaction it is not surprising that friction between China and Japan has been quite limited only to different interpretations of their mutual consensus. China and Japan have been diligent to restrain tensions from spilling over into other fields. The trend for Sino-Japanese economic relationship over the past two decades has been one of evermore close relations, very different from their political interaction. China is Japan's largest trading partner, whose trade volume accounts for one-fifth of Japan's trade. Japan is China's second largest trade partner and largest investor with more than 100 billion USD in 2014.⁴⁶ From the data gathered from both China and Japan, it is very clear that the Sino-Japanese trade relationship has been increasing in the past two decades. (See Table 1 and Figure 1.) The only turbulence that has happened between 2008 and 2010 was probably due to global financial crisis.

In addition, Japan has provided China with official development assistance (ODA) to China since 1979 and accumulated approximately 3.3 trillion yen (about 29.3 billion USD) in loan aid, 157.2 billion yen (about 1.4 billion USD) in grant aid, and 181.7 billion yen (about 1.6 billion USD) in technical cooperation.⁴⁷ Although China surpassed Japan as the world's second largest economy in 2010, Japan has still offered ODA to China even now. When China and Japan nearly suspended all high level communications between September 2012 and July 2014, the amount of trade and investment continued to increase. China's investment in Japan even doubled in 2013 after Japanese government nationalized Diaoyu/Senkaku islands.

Table 1: China-Japan Trade Relationship

| Year | China (million USD) | | Japan (billion Yen) | |
|------|---------------------|-----------|---------------------|--------|
| | Export | Import | Export | Import |
| 1995 | 28462.69 | 29004.76 | 2,062 | 3,381 |
| 1996 | 30886.22 | 29180.84 | 2,382 | 4,400 |
| 1997 | 31819.82 | 28992.98 | 2,631 | 5,062 |
| 1998 | 29660.11 | 28275.07 | 2,621 | 4,844 |
| 1999 | 32410.6 | 33763.38 | 2,657 | 4,875 |
| 2000 | 41654.31 | 41509.68 | 3,274 | 5,941 |
| 2001 | 44957.57 | 42796.91 | 3,764 | 7,027 |
| 2002 | 48433.84 | 53466 | 4,980 | 7,728 |
| 2003 | 59408.7 | 74148.13 | 6,635 | 8,731 |
| 2004 | 73509.04 | 94326.73 | 7,994 | 10,199 |
| 2005 | 83986.28 | 100407.68 | 8,837 | 11,975 |
| 2006 | 91622.67 | 115672.58 | 10,794 | 13,784 |
| 2007 | 102008.59 | 133942.37 | 12,839 | 15,035 |
| 2008 | 116132.45 | 50600.04 | 12,950 | 14,830 |
| 2009 | 97867.66 | 130914.9 | 10,236 | 11,436 |
| 2010 | 121043.49 | 176736.1 | 13,086 | 13,413 |
| 2011 | 148270.49 | 194563.52 | 12,902 | 14,642 |
| 2012 | 151621.83 | 177833.95 | 11,509 | 15,039 |
| 2013 | 150132.45 | 162245.4 | 12,625 | 17,660 |
| 2014 | 149391.34 | 162920.51 | 13,381 | 19,176 |

Source: State Statistical Bureau of PRC, <http://data.stats.gov.cn/easyquery.htm?cn=C01>; Historical Statistics of Japan, <http://www.stat.go.jp/english/data/chouki/index.htm>

On the Japanese side, the Prime Minister Abe Shinzo appears to be less eager to build strong ties with China, especially in comparison with the policies during Abe's first administration. The shift in the Japanese industrial overseas focus from China to Southeast Asia may explain the declining amount of Japanese investment in China since 2012.⁴⁸ (See Table 2 and Figure 2.) As for the Chinese side, president Xi Jinping has to weigh the pros and cons in Sino-Japanese relations. In the economic slowdown China appears to gain more benefits from improving its bilateral relationship with Japan in terms of economic cooperation. Hence, China-Japan rapprochement is expected. The recent development of the dispute in the ECS also reflects this concern. It has not demonstrated that increasing economic interdependence between China and Japan will decrease the risk of conflict as conventional

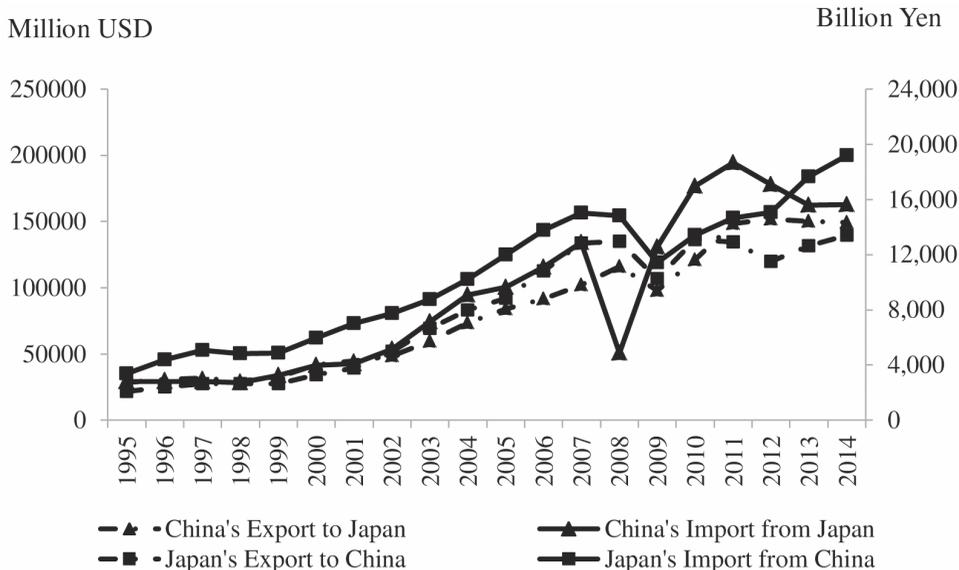


Figure 1: China-Japan Trade Volumes

liberalism proposes.⁴⁹ Neither does the economic interaction improve the image of China in Japanese society. Japanese perceptions of favorability toward China remain incredibly low with only 7 percent viewing China positively according to a Pew Survey on Global Views on China conducted in 43 countries. 91 percent of Japanese surveyed view China unfavorably, making Japan the number one country with the most unfavorable views. Vietnam is second on the list, with 78 percent viewing China unfavorably. In comparison, the U.S. views China with a 55 percent unfavorability rate.⁵⁰ Instead, the interaction between China and Japan over the ECS shows that dialogues are necessary and both governments must have the intentions for and perseverance to communicate and negotiate with each other. The core dispute remains, and this has not deteriorated as the economic relationship grows closer.

The economic data between China and Japan has shown a different picture from political interaction between the two sides. We may argue that the close economic links fail to improve political communication. By the same token, we have not found that political hostility spills over into the economic field. By examining the responses of China and Japan to each other's misbehavior in the ECS, we clearly see how mutual economic reliance pressures both countries not to adopt economic sanctions and stretch the issue into other fields.

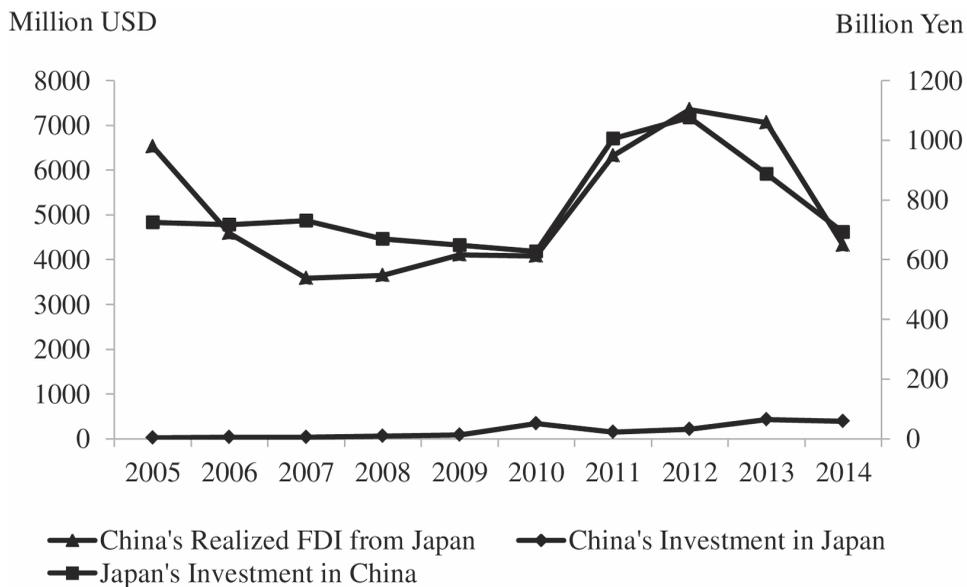
Conclusion

Competition between the two countries for natural resources in the ECS has been intensifying since 2004 and preventing their relationship from improving. Hence, conflict seems to be inevitable and a compromise is necessary. Both sides

Table 2: China-Japan Investment Relationship

| Year | Japan's Investment in China (billion Yen) | China's realized FDI from Japan (million USD) | China's Investment in Japan (million USD) |
|------|---|---|---|
| 2005 | 726 | 6529.77 | 17.17 |
| 2006 | 717 | 4598.06 | 39.49 |
| 2007 | 731 | 3589.22 | 39.03 |
| 2008 | 670 | 3652.35 | 58.62 |
| 2009 | 649 | 4104.97 | 84.1 |
| 2010 | 628 | 4083.72 | 337.99 |
| 2011 | 1,005 | 6329.63 | 149.42 |
| 2012 | 1,076 | 7351.56 | 210.65 |
| 2013 | 887 | 7058.17 | 434.05 |
| 2014 | 693 | 4325.3 | 394.45 |

Source: State Statistical Bureau of PRC, <http://data.stats.gov.cn/easyquery.htm?cn=C01>; Japan Statistical Yearbook 2016.



China-Japan Investment Relationship

have known quite clearly that joint development is a pragmatic solution and the Sino-Japanese relationship is too important to be destroyed by these disputes. Before the 2008 Principled Consensus, both sides agreed on the idea of joint development but had different interpretations of what it would mean or imply and what areas

should be jointly developed. Unfortunately, even after the 2008 Principled Consensus the same dilemma has prevailed.

This long-lasting controversy over the maritime delimitation has been the core element of the dispute for more than two decades. Looking from a positive perspective, both China and Japan have shown self-restraint and have not expanded their claims. The possible solution of this specific issue lies on three basic conditions: First, Japan needs to acknowledge that they cannot claim EEZ or continental shelf based on the disputed territory, namely, Diaoyu/Senkaku Islands. Second, a unified boundary for both EEZ and continental shelf is necessary. Apparently two boundaries based on different claims are the roots of the constant sources of irritation and provocation in the bilateral relationship. Third, cooperation in developing fisheries, minerals, and hydrocarbon resources is necessary regardless of the controversial maritime delimitation. Sharing common goals and benefits will strengthen the relationship.⁵¹

With the developing Sino-Japanese trade and investment relationship, both countries (especially China) have an increasing motivation to reach a substantial compromise that would allow them to develop oil and gas jointly in the ECS or at least achieve a partial solution to put disputes aside. Today, while China is experiencing an economic slowdown and the global energy market is reshuffling, the ECS gas field dispute is not necessarily linked to both countries' energy security. There is a more relaxed environment for both sides to negotiate. From the stumbling interaction between China and Japan on this issue we have witnessed an advancement (although very slowly) in the building up of a cooperative relationship and institutional mechanisms. Before the issue of maritime demarcation is solved the economic relationship will continue to play a role in containing the conflicts, and dialogues will continue.

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