

International Implications of Chinese Oil and Natural Gas Interests

by

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Abstract

As China's energy demand grows at a rapid pace alongside its economy, it seeks to secure access to the oil and natural gas needed to sustain this level of development. This paper examines two approaches that it uses to do so: opening up markets to its state-controlled oil companies and pushing territorial claims that hold rich potential reserves. Although these strategies create international tensions that increase the threat of conflict, this paper argues that a broader clash between major powers is unlikely. More probable is that global economic ties will encourage China to lean towards international collaboration over competition until renewable technologies replace petroleum.

Keywords: China; Angola; Japan; Petroleum; International Economic Relations

For my wife, Amber. Thank you for your support
and for just being a wonderful partner.

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List of Acronyms

CNOOC	China National Offshore Oil Corporation
CSR	Corporate Social Responsibility
EEZ	Exclusive Economic Zone
FDI	Foreign Direct Investment
IEA	International Energy Agency
IMF	International Monetary Fund
NDP	New Democratic Party
PSA	Production-Sharing Agreements

Chapter 1. Introduction

The discipline of international relations is in a constant state of flux. Events slowly transition into history and we are left to consider *why* things happened as they did. As we study this never-ending chain of circumstance, there is an irresistible need to speculate on how the future may unfold based on the observations we make. This need to predict is particularly strong as we consider the topic of global energy scarcity; especially when it comes to oil and natural gas. This is an issue of vital importance to us all. As China's hunger for these resources continues to grow, we reflect: what are the implications of increased international competition over these precious commodities? This project will address the question primarily by drawing from published academic literature as well as government documents and news reports. The argument presented herein is that despite a very real threat of conflict that exists as China seeks to obtain more secure access to oil and natural gas, it will likely lean towards international collaboration over competition until renewable technologies inevitably replace petroleum.

This project is structured in the following format. After an overall assessment of the international oil and gas sector, two widely varied case studies will be examined. Both are concerned with Chinese bilateral relations centered on petroleum reserves: one looks at investment in Angola and the other at the Diaoyu/Senkaku Island dispute with Japan. The project finishes with a consideration of the potential international implications of these relationships, drawing broader conclusions from the case study observations.

Project Outline

Chapter two contains an examination of the world petroleum industry and China's place within it, giving consideration to global rates of consumption versus remaining supplies. Looking at how modern extraction techniques affect this complex balance, it finishes with

a reflection on the potential for conflict that may exist in the face of future competition for oil and gas.

Chapter three looks at how China is increasingly turning to Africa to provide for more of its oil and gas needs. Using Chinese investment in Angola as a case study, it delves into the history of their relationship, considering the Chinese point of view as it contrasts with the West's. By necessity, we approach this chapter largely from a developmental perspective; investment in African countries is in many ways tied to development issues, so the majority of actors continually assess Chinese involvement with this perspective in mind. The chapter closes with an analysis of the potential effects that China's pursuit of oil and gas interests in Africa may have on relations with the West.

Chapter four deals with the Diaoyu/Senkaku Islands dispute between China and Japan. Tracing the chronology of the disagreement from historical records that form the foundation of their claims right up to the most recent diplomatic incidents, this case study attempts to shed light on the escalation of tensions over the years. Through this examination, a commonly held perception – *that the issue is primarily centered on oil and gas* – is called into question. Instead, the chapter ends with a look at how constructivist theories on social processes do a better job of explaining the way in which the situation has developed.

Chapter five provides an overview of the various central points of the project. It focuses on the competing paths of *competition* versus *collaboration* and shows how economic interdependence serves as an excellent tool in diffusing tensions. Examining how renewable technologies are likely to continue gaining ground against non-renewables, it also assesses the threat of conflict as China seeks to acquire more secure access to oil and natural gas. It finishes by concluding that China will likely manage to continue leaning towards international collaboration until new technologies eventually replace oil and gas.

Chapter 2. The World as We Know It

Regardless of where you live in the world, you do not have to look far to see stirrings of tension over issues related to international energy interests. For instance, in Canada, one does not have to go further than their doorstep to observe how the debate over energy sector policy generates impassioned discussion. This is especially true when it comes to China.

Much ado has been made over Chinese foreign direct investment (FDI) in Canada. In 2012, the China National Offshore Oil Corporation (CNOOC) bid \$15 billion to purchase Calgary-based Nexen Incorporated and its stake in the Alberta oil sands. It was an unquestionably hot topic for politicians, pundits and the public. The state-controlled giant's move to secure control of Nexen was viewed by critics as a worrying precedent, with the president of the Alberta Federation of Labour commenting that "CNOOC is not your typical oil company. It doesn't operate on market principles, and it isn't beholden to investors."¹ Likewise, Canada's Official Opposition party, the New Democratic Party (NDP), came out against the deal. The NDP Natural Resources Critic stated that "Canadians should be very apprehensive about the long-term economic and environmental consequences."²

That there is a certain level of sensitivity over maintaining control over domestic sources of oil and natural gas is understandable, but requires a little context in order to examine effectively. A foundational concept is that conventional sources of oil have either reached peak levels of production and are in decline (referred to as having hit 'peak oil')

¹ Alberta Federation of Labour, "Harper's Nexen Decision Couched in a 'Bald-Faced Lie,'" December 7, 2012, accessed February 20, 2014, <http://www.afl.org/index.php/Press-Release/harpers-nexen-decision-couched-in-a-bold-faced-lie.html>.

² NDP, "Harper Government Irresponsible in Approving Nexen Deal," December 7, 2012, accessed February 20, 2014, <http://www.ndp.ca/news/harper-government-irresponsible-approving-nexen-takeover>.

or will do so in the near future.³ However, it is important to recognize that the accuracy of this statement depends on the working definition used to identify ‘conventional sources.’ For example, the International Energy Agency (IEA) notes that the precise designation of peak oil remains a matter of debate since what constitutes conventional sources can be seen to change over time.⁴ Technological advances continue to allow more oil than ever before to be effectively extracted.

There are a wide variety of newer, unconventional sources by which oil may be obtained: deep-offshore oil, tar sands extraction, heavy and extra-heavy oil, shale oil, and the tapping of Arctic deposits. This raises an interesting point to consider. Specifically choosing to define conventional sources of oil as being those that are easily accessible and extractable through long established drilling techniques can shape our very perspective of this commodity. Categorizing different types of oil extraction in this way creates a divide between the *old* and the *new*. Old extraction techniques are often represented as inextricably tied to cheap and easy energy that is becoming a thing of the past. In contrast, the use of new extraction techniques is considered by some observers to represent a warning that we are tapping the last of these resources available. To the best of our knowledge, there are no more reserves waiting to be exploited afterwards.⁵

This seems to be both a valid interpretation of the available information and an effective way to frame this paper’s analysis. Professor Laurence C. Smith, Professor and Chair of the Department of Geography at the University of California, subscribes to the use of this perspective in his research. He describes conventional oil as being “oil in the traditional sense: a low-viscosity liquid that is relatively easy to pump from the ground.”⁶ In his work, Smith concedes that there always exists a chance of new oilfield discoveries to bolster current reserves, but stops short of implying that this will have a significant impact on considerations of increasing demand. He instead points out that of the supergiant fields currently in production, the last were discovered at the end of the

³ Michael T. Klare, *The Race for What’s Left* (New York: Metropolitan Books, 2012), 30-33.

⁴ IEA, “FAQs: Oil,” accessed February 7, 2014, <http://www.iea.org/aboutus/faqs/oil/>.

⁵ Michael T. Klare, *The Race for What’s Left* (New York: Metropolitan Books, 2012), 15.

⁶ Laurence C. Smith, *The World in 2050* (New York: Plume, 2011), 57.

1960s. Even with great advances in exploration technology, far larger expenditures are now being made in order to find increasingly smaller pockets of oil.⁷

The unconventional oil sources already mentioned are gradually taking a more prominent role in meeting demand (they are expected to provide 10 percent of the world's oil by 2035),⁸ which in turn relieves some of the pressure presented by the decline of conventional oil. These reserves are vast, estimated to be several times larger than traditional oilfields, but are far more costly in terms of the economic price tag and generally accompanied by greater environmental concerns.⁹

Why the need for such massive efforts? Oil is essential to global transportation, heating, electrical power and agriculture, and will continue to be a vital contributor to the world's energy needs for the foreseeable future. In 2011, oil comprised 31.5 percent of the total international energy supply, making it the single largest energy provider for our planet.¹⁰ Although this proportion will almost certainly decrease as a total share (having come down from 46 percent in 1973),¹¹ overall demand is forecast by the IEA to still be on an upward rise – albeit at a slower pace – in 2035.¹²

China's Place in the World

Building on these foundational concepts of rising demand coupled with increasingly costly oil extraction, we will begin to look at China's overall strategy for ensuring adequate energy supplies in the face of growing national use. 2009 can be seen as a major milestone in China's rise, as that was the year it became the world's largest energy consumer. To help relieve this pressure, China is actively pursuing the

⁷ Ibid, 59-60.

⁸ IEA, *World Energy Outlook 2010* (Paris: International Energy Agency, 2010), 143.

⁹ Ibid, 143-144.

¹⁰ IEA, "Share of Total Primary Energy Supply in 2011," accessed March 18, 2014, <http://www.iea.org/stats/WebGraphs/WORLD4.pdf>.

¹¹ IEA, "Key World Energy Statistics," *International Energy Agency* (2013): 6, accessed March 18, 2014, <http://www.iea.org/publications/freepublications/publication/KeyWorld2013.pdf>.

¹² IEA, "World Energy Outlook 2013: Executive Summary," *International Energy Agency* (2013): 4, accessed March 18, 2014, <http://www.iea.org/Textbase/npsum/WEO2013SUM.pdf>.

development of renewable energy sources. Through the implementation of favourable policies and legislation (the most significant of which is the Renewable Energy Law of 2005), the use of wind and solar power has increased.¹³ However, the proportion of energy that China produces through renewables is still only a tiny fraction of the total: *less than 1 percent in 2011*.¹⁴ Although it has done its best to use domestic supplies to keep pace with its voracious energy appetite, China's failure to do so for oil is a crucial concern for the country's leadership.¹⁵

There has been a dramatic increase in Chinese oil consumption over the past two decades, with levels moving up from approximately 130 million tons in 1991 to over 450 million in 2011.¹⁶ IEA statistics for 2011 indicate that China is already accountable for a sizable portion of global oil consumption: slightly over 10 percent.¹⁷ It is expected to surpass the United States as the world's largest oil consumer by 2030, representing a significant shift in the international political economy. This makes the methods that China uses to secure oil supplies matter a great deal when we consider the potential weight of its policies.¹⁸

There are many ways that China has sought to obtain sufficient access to oil supplies. As already discussed, one of the most visible has been its use of 'state-championed' companies. This is an important facet of its national energy strategy and requires close examination: from the purchase of companies such as Nexen through to the development of ties to oil-rich countries in Africa, China appears to be leaving no stone unturned in its quest to acquire sufficient reserves.¹⁹

¹³ Kat Cheung, "Integration of Renewables," Working Paper (International Energy Agency, 2011), accessed March 21, 2014, http://www.iea.org/publications/freepublications/publication/Integration_of_Renewables.pdf.

¹⁴ IEA, "Statistics," accessed March 17, 2014, <http://www.iea.org/statistics/statisticssearch/>.

¹⁵ David Shambaugh, *China Goes Global* (New York: Oxford University Press, 2013), 162-163.

¹⁶ IEA, "Consumption of Oil Products: China (Region)," accessed March 19, 2014, <http://www.iea.org/stats/WebGraphs/CHINAREG1.pdf>.

¹⁷ IEA, "Statistics," accessed March 17, 2014, <http://www.iea.org/statistics/statisticssearch/>.

¹⁸ IEA, "World Energy Outlook: Executive Summary," *International Energy Agency* (2013): 4, accessed March 18, 2014, <http://www.iea.org/Textbase/npsum/WEO2013SUM.pdf>.

¹⁹ Hong Zhao, "China's Oil Venture in Africa," in *East Asia*, (Vol.24, No.4, December 2007), 399-415.

A territorial disagreement with Japan shows another way China has gone about this. The past several years has witnessed a string of incidents over a group of islands located between the two countries (valuable for their claim to undersea oil and gas deposits that potentially accompany them). They are called the Diaoyus by China and Senkaku by Japan. Complicating and adding additional tension to the disagreement are misunderstandings regarding motivations on both sides, and a shared legacy of historical conflicts.^{20 21}

The next two chapters will focus on these two topics, and consider the possibility of global conflict that both present. The reasoning behind this premise is simple. As non-renewable energy becomes ever more costly to acquire (and consequently more valuable and vital to national security), countries are likely to increasingly rely on military deployment in defense of resource endowments and critical related infrastructure. This need not be done with the intent of provoking conflict, but regardless of intent, increased reliance on military will bring with it a greater chance of incidents leading to war. Rising military activity can already be detected in important resource-supplying regions, notably by the US and China in the African and Central Asia regions.²²

²⁰ Yoshi Kawasaki, "The Daioyu/Senkaku Dispute: Analyzing the Japanese Perspectives," *Canada Asia Agenda*, (Vancouver: Asia Pacific Foundation of Canada, 2012).

²¹ Yves Tiberghien, "The Daioyu/Senkaku Dispute: Analyzing the Chinese Perspectives," *Canada Asia Agenda*, (Vancouver: Asia Pacific Foundation of Canada, 2012).

²² Michael T. Klare, *The Race for What's Left* (New York: Metropolitan Books, 2012), 221.

Chapter 3. African Development and Oil

In development circles, there has been much debate over the question of China in Africa, an enquiry that can be boiled down rather simply: is China good for Africa? Maybe this is too broad a question, which would perhaps indicate why there is so much debate over the answer. One would hope that the question we will examine is a little more directed, and therefore a little more manageable: what could be the international implications of China's oil and gas interests in Africa? To find the answer, we must first consider the current state of international affairs there, which is a situation that revolves around issues of development.

To begin, there is no doubt that much good can potentially be done in Africa, since the situation as it stands is not a positive one. The average per capita income makes it the poorest region in the world, life expectancy sits below sixty years, literacy rates are falling, and approximately half the continent is subject to non-democratic rule.²³ However, the current picture of Africa should not be taken for hopeless, as there are many signs of improvement. For example, economic growth among some countries is on the rise and the number of democratic elections has increased.²⁴

Of course, this jump in economic growth can be largely attributed to the successes of Africa's commodity exporting countries. Among these, oil-exporting nations like Nigeria and Angola have reaped the sizable benefits of their abundant reserves of petroleum, with access to these benefits achieved through the financial investments of various foreign actors. This is a point that we will return to, but it is first necessary to consider the historical background that affects much of Africa's current circumstances.

²³ Dambisa Moyo, *Dead Aid* (Vancouver: Douglas & McIntyre, 2009), 5-6.

²⁴ *Ibid*, 3.

The West shares a complicated and troubled history with Africa. A long-standing colonial path has transitioned into what is sometimes interpreted as a paternalistic role in development, making it impossible for Western actors to approach economic partnerships in Africa with an entirely clean slate. The West's colonial history in Africa starts with an international race to obtain African resources in the latter part of the nineteenth century, a race prompted by European military rivalry and the need to open up fresh markets and commodity sources. The Congress of Berlin in 1878 provided the means by which the European powers agreed to the territorial division of Africa. This event shapes the continent's political and economic landscape to this day, as it resulted in the drawing of arbitrary national boundaries and creation of extraction-based economies.²⁵

The next stage in the relationship between Africa and the West would not begin until nearly a century later. The Marshall Plan had been conceived in the post-World War II environment as a way to help facilitate the reconstruction of Europe's war-ravaged nations. It introduced billions in government-to-government aid transfers from the US and is regarded as a wildly successful experiment in economic reconstruction.²⁶ With the Marshall Plan illustrating the effectiveness of aid, a strategy was conceived to help develop emerging economies now free from the shackles of colonialism. To policymakers of the time, African nations would have seemed to be excellent candidates for such assistance; they were viewed as only needing infusions of capital in order to get the process of growth started in the same way that Europe had.

This straightforward sounding concept never transformed into the triumph that its architects were presumably hoping for. The West has sent \$2 trillion in aid to the poorest countries of the world over the past fifty years, most of which has gone to Africa. Despite this, Africa continues to flounder compared against the rest of the planet.²⁷

²⁵ Padraig Carmody, *The New Scramble for Africa* (Cambridge: Polity Press, 2011), 2.

²⁶ William R. Keylor, *The Twentieth-Century World and Beyond*, 5th ed. (New York: Oxford University Press, 2006), 244.

²⁷ Dambisa Moyo, *Dead Aid* (Vancouver: Douglas & McIntyre, 2009), 28.

This transition from colonial rulers to benefactors in an unsuccessful developmental process overshadows the West's current relationship with Africa. History has a major impact on dealings throughout the continent, and past events must be taken into careful consideration for the West to successfully engage. This relationship must be understood before China's relationship with Africa can be scrutinized in the next section.

For the West, matters of financial investment in oil and natural gas sectors are in no way free of development considerations. They are influenced by previous colonial history and African chafing at a perceived paternalistic attitude towards their nations' internal affairs. There are good reasons for this perception, as seen in the many conditions that accompany the work of Western actors in Africa. Organizations such as the World Bank and International Monetary Fund (IMF) have long track records of imposing conditions on African nations, requiring that they take steps towards sound fiscal management practices before allowing a quid-pro-quo of debt relief or developmental loans.²⁸

The IMF has helped to consolidate power in the hands of the West by weighing the voting power of its members relative to the contributions that each makes towards the Fund's total resources. Members cannot simply increase their voting power by contributing more; maximum contributions are set by the Fund's executive board, which puts nearly 40% of total votes (and the accompanying control) into the hands of the US, Japan, Germany, France and the United Kingdom. Conditions that are imposed on the borrowing of funds are argued to be a necessity. The rationale behind is that unless changes are made to borrowers' national economies, they will be unable to repay their loans or see long-term, sustainable growth.²⁹ A fair point, but these same conditions are often viewed among developing countries as a highly paternalistic management policy that uncomfortably echoes the colonial past.

It is important to remember that starting with the Thatcher/Reagan administrations, neoliberal ideas began a domination of economic policy throughout the Western world

²⁸ John Ghazvinian, *Untapped: The Scramble for Africa's Oil* (Orlando: Harcourt Books, 2007), 250-251.

²⁹ Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (New York: Ithaca University Press, 2004), 48-68.

that continued for three decades. As these were the policies that the IMF actively worked to promote, the organization essentially served as tool for opening up developing markets.³⁰ This 'hands off the wheel' approach that embraces free-market solutions (i.e. financial liberalization, free trade and privatization) has been argued to structurally disadvantage developing countries. Chinese economist Justin Yifu Lin writes that when a developing country is suddenly exposed to the unfettered force of the free-market, non-viable enterprises without subsidies or alternative forms of protection can easily be torn apart. If there are too many of these firms, then there will be "economic chaos due to large-scale bankruptcies and dramatic increases in unemployment."³¹ He makes the point that one of the keys to China's economic success has been the gradual introduction of market reforms while simultaneously working to protect fledgling industries.

Gambling on the success of neoliberalism and the recommendations of the Washington Consensus has not paid off for Africa. To see this, one need only look at the results of IMF initiatives heavily shaped by these ideas, initiatives such as Structural Adjustment or Enhanced Structural Adjustment Facilities. Zambian-born economist Dambisa Moyo states that poor governments involved in these initiatives received cash in the form of budgetary support, but only after agreeing to give their economies over to free-market solutions. She observes that free markets not only gave African economies the chance to succeed, but also put them at risk of failure.³² Moyo makes the point that based on the performance of affected economies over the past 30 years, these policies seem to have not worked in Africa's best interest. However, out of the many negative factors that hamper African economies, one of the bright spots that she does identify is oil investment.

The oil industry in Africa is massive generator of economic benefits for the region, although it would be impossible to argue that everyone profits from its presence. Oil revenues could be said to be 'unequally distributed,' if one were to put it charitably (this

³⁰ Dani Rodrik, *The Globalization Paradox* (New York: W.W. Norton & Company, 2011), 103-104.

³¹ Justin Yifu Lin, *Economic Development and Transition* (New York: Cambridge University Press, 2009), 52-53.

³² Dambisa Moyo, *Dead Aid* (Vancouver: Douglas & McIntyre, 2009), 21.

will be explored in further detail in the following section). It is likewise impossible to argue against the current importance of African oil. Production ramped up from 2.2 million barrels a day in 1965 to 10 million in 2006, by which time African oil supplies had come to account for 12.1 percent of world production.³³ Five countries are responsible for the vast majority of production, dominating Africa's contribution to global oil markets. In 2012, 85 percent of total production came from Nigeria (26%), Angola (18%), Algeria (17%), Libya (16%) and Egypt (8%).³⁴

Unfortunately, Africa lacks the technological self-sufficiency to undertake exploration and extraction on its own and therefore remains dependant on external entrepreneurs. In the West, these are private oil companies seeking to invest in the region so as to tap into its reserves. But what, specifically, is the big draw for these companies? Recent estimates show Africa as having only 7.8 percent of the world's proven oil reserves, making it a relatively small player when viewed against the sector as a whole.³⁵ In an area of the world where violence often exists as possible threat to oil operations, there are a number of counterbalancing factors that make Africa an attractive proposition for investment.

In addition to having easy access to ocean transport and being largely endowed with high-quality oil that is easier to refine, the contractual environment in Africa can prove extremely lucrative when compared against other regions of the world.³⁶ As already mentioned, Africa nations lack the technological capacity necessary to locate oil and then take the intervening steps of production necessary to deliver it to global markets. Instead, many of them operate by entering into Production-Sharing Agreements (PSAs) with foreign oil companies. These companies are granted licences to search for oil in geographical blocks, assuming all associated costs of exploration. If oil is found, the

³³ African Development Bank and African Union, *Oil and Gas in Africa* (New York: Oxford University Press, 2009), 43-46.

³⁴ BP, "BP Statistical Review of World Energy 2013," (June 2013), accessed March 22, 2014, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf.

³⁵ Ibid.

³⁶ John Ghazvinian, *Untapped: The Scramble for Africa's Oil* (Orlando: Harcourt Books, 2007), 9-11.

company is then permitted to recover its initial expenditures before having to begin sharing revenue with its host country.

These companies operate on a separate track from organizations like the IMF and the World Bank. In the West, investment is seen as a useful way to encourage development (as illustrated by the free-market policies that were pushed on Africa), but is held apart from it in many ways. Few people would say that African development is a central concern for the majority of stockholders who hold shares in these oil companies. This is where Western investment in Africa diverges from China's investment policy, which the Chinese see as being more closely linked to development.

China and Angola

Enter China into Africa. As already discussed, China has never been beholden to the concept of neoliberalism. Instead, it has preferred to find its own path: Chinese leader Deng Xiaoping famously observed that transitioning from a planned economy to a market economy is like crossing a river by feeling for stones beneath the surface. In practical terms, this has meant an extremely cautious approach that lacks the kind of shock-inducing reforms that Western actors have often pushed for. It also means a very different approach to financial investment in Africa.

As opposed the West's conditional support, Chinese investment can be seen as having far fewer strings attached, a position that has been decried – loudly and often – in the West. Not simply for the ideological differences in overall economic policy, but instead over concerns regarding China's 'no questions asked' strategy towards its African partner states.³⁷

This strategy can be seen clearly in the four stated principles and objectives of China's African policy. These are detailed in Beijing's 2006 white paper on Sino-African relations, and summarized here:³⁸

³⁷ Padraig Carmody, *The New Scramble for Africa* (Cambridge: Polity Press, 2011), 68.

³⁸ Chinese Government, "China's African Policy," (January 2006), accessed February 9, 2014, <http://www.focac.org/eng/zt/zgdfzccwj/t230479.htm>.

- *Sincerity, friendship and equality*: China adheres to principles of peaceful co-existence, respects African countries' independent choice of the road of development, and supports African efforts to grow through unity.
- *Mutual benefit, reciprocity and common prosperity*: China supports African economic development and nation building, carries out cooperation in economic and social development, and promotes prosperity for China and Africa.
- *Mutual support and close coordination*: China will strengthen cooperation with Africa in the United Nations and other multilateral systems by supporting each other's reasonable propositions and continuing to appeal to the international community to give more attention concerning peace and development in Africa.
- *Learning from each other and seeking common development*: China and Africa will learn from each other in governance and development, strengthening cooperation in education, science, culture and health. Supporting efforts to enhance capacity, China will work with Africa in sustainable development.

A primary theme repeatedly observed throughout the language of these four points – and the remainder of the white paper – is that not only are development and investment linked, but can be viewed to a large degree as two sides of the same coin. With Chinese oil companies and investment banks both under government control, more policy coordination is often possible than it is in the West. Central to this synchronized development and investment policy is a concept stated in the first of the four points: *respecting independence*. It is presented as a contrast to the heavy-handed manner in which China sees the West as having operated. This is where frictions emerge between the West and China, providing a significant point of tension between their two diverging policies.

To better understand these frictions, consider the case of Angola. As the civil war in Angola ended in 2002, there was a need within the African country for increased oil production that neatly aligned with the rapidly growing Chinese demand for the precious commodity. Having moved from petroleum self-sufficiency to a position as one of the world's largest consumers of petroleum in under two decades, Chinese leadership had to ensure that China was protected from both market fluctuations and the sort of

unacceptable external pressures that could accompany foreign control of its petroleum sources. China's state-controlled oil companies and investment banks acted as the tool to achieve this policy objective, and the partnership that developed in response to this convergence of needs is valuable for both sides. By 2010, almost 20 percent of Angola's petroleum exports went to China, and Angola had become China's second-largest source of imported petroleum.³⁹

The practical application of Chinese respect for independence has drawn criticism in this case. "Angola is not an electoral democracy," states democracy and human rights advocacy group, Freedom House.⁴⁰ The fact that Angola had elections in 2012 might seem to call this conclusion into question, as Freedom House even notes that it largely reflected the will of the Angolan people and represented an improvement over the previous election. However, regardless of the outcome of the election, the resulting National Assembly had little strength. Instead, de facto power rested in the hands of the executive branch, from where 90 percent of legislation originates.⁴¹

With the party of President Jose Eduardo dos Santos dominating the National Assembly in 2010, he was able to effectively draft the constitution so as to end the practice of presidential elections and instead usher in a system where the leader of the largest parliamentary party would become president. The new constitution also mandated that the president be given the authority to appoint the vice president, as well as the cabinet and provincial governors. With a single stroke, Santos was able to cement personal power into constitutional law.⁴²

Because of the tremendous amounts of money in play, there are correspondingly massive incentives for individuals to hold on to power at any cost. Angola earned

³⁹ Ana Cristina Alves, "China's Oil Interests in Angola," in *China & Angola: A Marriage of Convenience?*, ed. Marcus Power and Ana Cristina Alves (Cape Town: Pambazuka Press, 2012), 105-106.

⁴⁰ Freedom House, "Angola," *Freedom in the World 2013*, accessed February 5, 2014, <http://www.freedomhouse.org/report/freedom-world/2013/angola#.UwvewXm4mll>.

⁴¹ Ibid.

⁴² Louise Redvers, "Angolan Parliament Approves Constitution for Stronger President," *AFP*, January 21, 2010, accessed February 5, 2014, http://www.google.com/hostednews/afp/article/ALeqM5iA3k8mkzStzIGekIS3f_bQ58DFsQ.

between \$4 and \$5 billion from oil revenues in 2006, with approximately 85% of this revenue collected through the state-owned Sonangol Group.⁴³ Founded in 1976 (shortly after Angola's independence from Portugal), it oversees oil and natural gas production throughout the country. However, Sonangol does not do the work of getting oil fields online. As is the case in many African countries, it instead subcontracts out to foreign oil companies that bear the cost of initial exploration and development, recouping their investments through the use of PSAs. Sonangol then acquires production revenue and collects taxes from these companies for the Angolan government.

Unfortunately, most people in Angola are not likely to see much in the way of benefits from these substantial incomes. The majority goes towards debt repayment and new loans taken out in order for the government to continue running its day-to-day operations. The rest simply disappears. In Angola, business and government are underpinned by corruption, and many elite specialize in helping oil revenue to 'evaporate' from government accounts. According to IMF estimates, at least \$1 billion annually goes missing in this way.⁴⁴

This situation creates a point of friction between China and the West as they each go about approaching investment in Angola in their own way; it is an environment so heavily corrupt that in 2013, the non-profit Revenue Watch Institute rated Angola 15 out of 100 in regards to corruption and rule of law.⁴⁵ There is a fear in the West that Chinese investment will help to support corruption through the provision of conditionality-free investment that Western countries and aid agencies would not offer.⁴⁶ They argue that without the type of conditionalities that are typically imposed by Western donors, Angola will be greatly setback in taking halting steps towards decreasing corruption and attaining better governance.

⁴³ Daniel Morris, "The Chance to Go Deep: U.S. Energy Interests in West Africa," *American Foreign Policy Interests* 28 (2006): 234.

⁴⁴ Padraig Carmody, *The New Scramble for Africa* (Cambridge: Polity Press, 2011), 122.

⁴⁵ Revenue Watch Institute, "2013," *The 2013 Resource Governance Index*, accessed February 6, 2013, http://www.revenuwatch.org/sites/default/files/country_pdfs/angolaRGI2013.pdf.

⁴⁶ Charlie Furnis, "The Hungry Dragon and the Dark Continent," in *Geographical Magazine*, (Vol. 33, No. 3, December 2011), 53-61.

The clearest example of this can be traced back to the end of the Angolan civil war. Western donors had balked at lending the Angolan government the funds needed for reconstruction and development without first having firm commitments on improving governance and fiscal transparency. Rather than submit to these conditions, Angola turned to China, which had no qualms about providing the needed funds in return for access to the energy resources that they in turn required.⁴⁷ It is important to bear in mind that while there are no political strings attached when it comes to Chinese investment, the same cannot be said of economic conditions.

Consider the case of the Export-Import Bank of China. Between 2002 and 2010, this state-owned institution lent \$4.5 billion to the Angolan government, and with none of the troublesome interference in domestic affairs that would have come with an IMF loan. Instead there were stipulations that 70% of public tenders for all civil engineering and construction projects would have to be awarded to Chinese companies approved by Beijing.⁴⁸ As such, it becomes easy to argue that these loans should not be construed as charity; they are simply sound policy that benefits China from every angle. Not only is it able to recycle its massive foreign exchange reserves and gain access to vital resources, but China also receives its initial investment back twice: once through the repayment of loans and again by way of payments to Chinese companies that complete the projects.

Critics both in the West and in Africa have attacked China's practices in this regard, seeing the situation from a perspective that interprets China as trying to reap as many possible benefits for itself without any consideration of the outcomes in Africa. Their contention is that the 'trickle-down' benefits of Chinese involvement are all too few: Chinese companies meet most labour demands with Chinese workers, and Angolan entrepreneurs face tough competition from Chinese who shoulder their way into the

⁴⁷ Assis Malaquias, "China is Angola's New Best Friend – for Now," in *China & Angola: A Marriage of Convenience?*, ed. Marcus Power and Ana Cristina Alves (Cape Town: Pambazuka Press, 2012), 35-40.

⁴⁸ Pdraig Carmody, *The New Scramble for Africa* (Cambridge: Polity Press, 2011), 123.

market by providing services for these companies.⁴⁹ Additionally, jobs that have been created are sometimes harshly criticized for cost-cutting labour practices that can result in poor – sometimes dangerous – working conditions.⁵⁰

Other observers choose to argue that Chinese involvement is, when taken on the whole, beneficial for Africa. They do not debate China's obvious self-interest, and instead point to Chinese engagement in a wide variety of industries. This is contrasted against Western nations' more limited focus on governance, democracy and *oil*. Deborah Brautigam, Director of the International Development Program at Johns Hopkins University, cuts to the heart of this back-and-forth when she writes how "Westerners support government and democracy; the Chinese build roads and dams."⁵¹ Interestingly, of Western actors, it is oil companies that can be seen to provide the most support for Angolan development.

As an example, one of the top oil producers in Angola is Chevron, which hit a major milestone when it produced its 4 billionth barrel of Angolan oil in 2012.⁵² Chevron works with partners (such as the United Nations Children's Fund or the United Nations Industrial Development Organization) to invest in strategic areas such as health and education, providing support for professionals to implement various programs on their behalf.⁵³ This is less a matter of pure philanthropy, and more a reflection of the concept of Corporate Social Responsibility (CSR). The central concern of CSR is to increase long-term profitability in proportion to the size of the investment, providing a means of responding to international activists while creating a more stable operating environment locally.⁵⁴ In many ways, these Western companies seem to operate in a fashion that is

⁴⁹ Assis Malaquias, "China is Angola's New Best Friend – for Now," in *China & Angola: A Marriage of Convenience?*, ed. Marcus Power and Ana Cristina Alves (Cape Town: Pambazuka Press, 2012), 41.

⁵⁰ Padraig Carmody, *The New Scramble for Africa* (Cambridge: Polity Press, 2011), 68-69.

⁵¹ Deborah Brautigam, "Africa's Eastern Promise," *Foreign Affairs*, January 5, 2010, accessed February 2, 2014, <http://www.foreignaffairs.com/articles/65916/deborah-brautigam/africa's-eastern-promise?page=2>.

⁵² Chevron, "Angola Fact Sheet," (April 2013), accessed March 30, 2014, <http://www.chevron.com/documents/pdf/angolafactsheet.pdf>.

⁵³ *Ibid.*

⁵⁴ Kristin Reed, *Crude Existence* (Berkeley: University of California Press, 2009), 174-175.

not so different from China's investment and development policy: pursuing development projects that receive local government approval in order to continue working in Angola.⁵⁵ Perhaps the biggest difference is the scale of development investment, as the Chinese government can focus on using oil companies to extract oil and investment banks to provide development funding. A major Western company like Chevron widely publicises the \$210 million that it has provided for development in Angola over the past 23 years; Chinese loans to Angola for reconstruction and economy-building reached \$14.5 *billion* between 2002 and 2010 alone.^{56 57}

A unique way to approach this debate is try sidestepping theoretical deliberations for a moment and examine research that considers the perspective of the people on the ground. Amalia Quintao and Regina Santos, economists and researchers with the Catholic University of Angola, produced a comparative analysis of Chinese and Western corporate practices in Angola based on the perceptions of Angolan workers. The results of their findings verify many common criticisms: the influx of Chinese workers in Angola creates such a distortion of the labour market that there is scarcely any effect on local employment, and for those Angolans that are able to secure employment, China is found to provide generally poorer working conditions than Western companies. However, Quintao and Santos go beyond this acknowledgement to conclude with an expression of optimism that Angolan workers have an opportunity to benefit significantly by working with the Chinese.⁵⁸ Perhaps this more than anything presents a realistic view of the situation in Angola: Chinese investment is hardly ideal, and many things could change for the better, but the opportunity that it presents is far better than no opportunity at all.

⁵⁵ Ibid, 176-177.

⁵⁶ Chevron, "Angola Fact Sheet," (April 2013), accessed March 30, 2014, <http://www.chevron.com/documents/pdf/angolafactsheet.pdf>.

⁵⁷ Amalia Quintao and Regina Santos, "Chinese Corporate Practices in Angola," in *China & Angola: A Marriage of Convenience?* ed. Marcus Power and Ana Cristina Alves (Cape Town: Pambazuka Press, 2012), 148.

⁵⁸ Ibid, 159-160.

Competition to Confrontation?

Make no mistake, although much has been made over China's growing involvement in Africa, the US – poster-child for the West – still remains the largest investor there. Still, China's burgeoning resource acquisitions and developmental assistance grow and are scrutinized accordingly. Rarely is anything in international affairs considered from the perspective of neat, separate silos; connections stretch out from different points of interest to affect a wider web of geopolitical concerns. To this end, we next look at two factors in Africa that could lead to confrontation between China and the West: fear over shifting international soft-power dynamics and a budding security dilemma.

Regarding the first factor, China's increasingly active presence on the world stage signals a dramatic shift in policy from its previous, inward-oriented stance. The US, as the existing super-power within the international system, finds itself sensitive as up-and-coming China increasingly flexes its soft-power muscles. Negative reactions to Chinese policy can be seen at the very highest levels of American government. In 2011, then Secretary of State Hillary Clinton was on a five-day African tour when she spoke of how African's should beware of a 'new colonialism.'⁵⁹ Although China was not explicitly mentioned, Clinton was clearly making a thinly veiled attack against the problematic Chinese investment policies that we have already covered in some detail. Development economist Dambisa Moyo provides us with one viewpoint:

China's African charm offensive has not gone unnoticed. Criticisms abound, notably from those who currently rule the roost in determining Africa's destiny – the Western liberal consensus, who believe (often in the most paternalist way) it is their responsibility to look after Africa. But what exactly is their motivation? Is it that they care? Or is it the underlying political fear that, left unchecked, China will use Africa as a stepping stone on its relentless march towards world aggrandizement.⁶⁰

⁵⁹ Andrew Quinn, "Clinton Warns Against 'New Colonialism' in Africa," *Reuters*, June 11, 2011, accessed Feb 8, 2014, <http://www.reuters.com/article/2011/06/11/us-clinton-africa-idUSTRE75A0RI20110611>.

⁶⁰ Dambisa Moyo, *Dead Aid* (Vancouver: Douglas & McIntyre, 2009), 107.

A cynic would be unimpressed by the ideological back-and-forth between China and the West. After all, whatever protests each might make regarding their earnest desire to consider Africa's well-being, *both* actors are careful to see that their own interests are served in their respective dealings with the continent.

From the point of view of political scientist Randall Schweller, the problem inherent in China's exercises of soft power are that they can bring potentially dangerous changes to the international system when its expanding interests overlap with Western interests. China is a rising power, which – from a rational theoretical perspective like *neorealism* – assumes that the stronger and richer it becomes, the more influence it will want and the greater its ability will be to pursue the expansion of this influence. Schweller also maintains that these considerations take a backseat to a more significant concern; that rising powers present the greatest threat when they seek to restructure the shape of the international system.⁶¹ He argues that a change from the current unipolar system to a bipolar one could signify a substantial threat to world peace. The restructuring of power that would accompany such a change would have a greater chance of causing violent conflict than if changes were simply made within the existing system.

This means that the key to assessing a potential threat is the accurate identification of a rising power's intentions, as different countries will behave in different ways based on how their internal character affects policy choices. For instance, will China be satisfied with making changes within the framework of the international system, or will it actively seek to change that very structure, reimagining it in a way that better suits its long-term goals? Schweller would identify this as a question as to whether China is a *limited-aims revisionist* power that is satisfied by making changes within the framework of the current international system, versus a *revolutionary revisionist* power that actively seeks to change that system's very structure.⁶²

How far will China seek to push the use of its soft power? In order for the West to make the best possible decisions when choosing policies in the face of China's rise, it needs to

⁶¹ Randall L. Schweller, "Managing the Rise of the Great Powers," in *Engaging China*, ed. Alastair Ian Johnston and Robert S. Ross, (London: Routledge, 1999), 2-7.

⁶² *Ibid*, 18-21.

take Chinese intentions into consideration.⁶³ This is one of the primary difficulties that the West faces in selecting responses to China: given the country's typical lack of transparency regarding its internal decision-making process, it is often difficult for external observers to accurately gauge its true intentions. Despite the fact that China does not like being referred to as a revisionist power (maintaining that it is for the *status quo*), there is an interesting concept that has been advanced by Tomohiko Taniguchi of Keio University identifying China as at least being a "revisionist power by omission."⁶⁴ The argument is that regardless of whether or not it is the intention of the Chinese leadership to change the world, China has reached a scale whereby it has a significant impact on its surroundings simply by existing; deliberate political decisions are no longer necessary for it to be a revisionist power.

Of course, the other factor to be considered is that of a possible security dilemma. In contrast to China's exercises of soft power, this instead concerns Sino-African military and security relationships. For example, Chinese investment in Angolan oil has resulted in a strong bilateral military relationship between the two countries. China provides Angola with both armed forces training and equipment for various military units. Chinese support has notably included \$6 million in financing for an elite tactical and operational support training centre (2004) and a \$100 million upgrade to Angola's military communications infrastructure (2007).⁶⁵ The strength of their relationship can be seen in regular meetings held between high-level officials, with the Chinese Defense Minister meeting the Chief of General Staff for the Angolan Armed Forces as recently as October 2013.⁶⁶ However, the chance of this partnership creating a security dilemma with Western actors would have to be considered extremely unlikely, since by its definition a security dilemma only arises when a state tending to its own security increases the sense of insecurity among other states. The Chinese military, although comprised of an

⁶³ Ibid, 23-24.

⁶⁴ Tomohiko Taniguchi, "Changing Contours of Japan's Foreign Policy," in *Emerging China*, ed. Sudhir T. Devare et al. (New Delhi: Routledge, 2012), 191-192.

⁶⁵ David H. Shinn, "Military and Security Relations: China, Africa, and the Rest of the World," in *China into Africa*, ed. Robert I. Rotberg, (Washington: Brookings Institute Press, 2008), 165.

⁶⁶ Xinhua, "China, Angola Strengthen Military Ties," October 23, 2013, accessed February 18, 2014, <http://english.people.com.cn/90883/8433365.html>.

imposing ground force, is unlikely to ever have a significant 'boots on the ground' presence in Africa; except in terms of limited peacekeeping missions.

A situation that could be considered somewhat more likely in a broader geopolitical context is a security dilemma over naval forces. Despite its growing strength, China currently lacks the naval power to protect the sea-lanes that serve to provide it with African (and Middle Eastern) oil. As such, China finds itself dependent in this regard on the American naval forces. It is an untenable situation that gives the US substantial leverage in the case of a Chinese conflict with Taiwan, as it could potentially deny China access to overseas oil supplies.⁶⁷ That America keeps a close eye on Chinese military developments is to be expected from a super-power keeping an eye on a rising rival, and can be clearly seen in many official documents. A Department of Defense Report to Congress in 2011 reserves a section for analyzing Chinese navel expansion and modernization; the report also specifically mentions how heavily dependent China is on Sea Lines of Communication for access its oil imports.⁶⁸

⁶⁷ David H. Shinn, "Military and Security Relations: China, Africa, and the Rest of the World," in *China into Africa*, ed. Robert I. Rotberg, (Washington: Brookings Institute Press, 2008), 184.

⁶⁸ Department of Defense, "Military and Security Developments Involving the People's Republic of China," *Annual Report to Congress*, May 6, 2011, Accessed Feb 7, 2014, http://www.defense.gov/pubs/pdfs/2011_cmpr_final.pdf.

Chapter 4. China and Japan: The Island Dispute

Neighbours and rivals, China and Japan share a tangled history that has subtle (and not so subtle) influences on contemporary life and politics. For the most part, these 'deep roots' will fall outside the scope of this project. Instead we embark on a far more focused examination that specifically looks at a small group of uninhabited islands in the East China Sea. They are called the Diaoyu Islands by the Chinese and the Senkaku by the Japanese. The islands are the single point of territorial contention between these two countries, a disagreement that has presumably arisen due to the potential oil and gas reserves that surround them.

China has shown it has no qualms over playing hardball when it comes to territory that it claims, as demonstrated by its actions in another dispute, this one in the South China Sea. The tremendous potential hydrocarbon reserves in that area – perhaps 105 billion barrels according to Chinese sources – make for a valuable prize.⁶⁹ China has recently attempted to stop vessels from the Philippines that were seeking to resupply troops stationed on a shoal in the disputed territory, which lies within the Philippine's 200-mile Exclusive Economic Zone (EEZ). Manila's submission of a territorial claim to the United Nations has further provoked the ire of Beijing, which would prefer to settle the issue through bilateral negotiations.⁷⁰ Japan will have certainly noted China's unflinching responses in a situation where it arguably has a far weaker claim than it does against Japan. It is this claim that we will now investigate in detail.

⁶⁹ Taylor Fravel, "China's Strategy in the South China Sea," in *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, (Vol. 33, No.3, December 2011).

⁷⁰ Ted Regencia, "Philippines Sues China over Sea Claims," *Aljazeera*, March 30, 2014, accessed April 1, 2014, <http://www.aljazeera.com/indepth/features/2014/03/philippines-sues-china-over-sea-claims-nine-dashed-line--201433055112597830.html>.

Historical records of the Diaoyu/Senkaku Islands go back as far as China's Ming dynasty in 1534, when the Emperor dispatched an envoy to the Ryukyu Kingdom (modern-day Okinawa and the surrounding Ryukyu Islands). The envoy wrote that upon reaching the island of Kumejima (less than 100 km east of Okinawa Island) he had entered Ryukyu, which has been interpreted by China as a record that the historical Chinese border lay between Kumejima and the Diaoyu/Senkaku Islands. China uses this account as the basis of its claim that the Diaoyu/Senkaku Islands are its sovereign territory.⁷¹ However, fast-forwarding ahead to the first Sino-Japanese war, we see a Japanese victory over China culminate with the signing of the Treaty of Shimonoseki in 1895. During treaty negotiations, Japan decided to recognize the Diaoyu/Senkaku Islands as a part of Okinawa prefecture, and annexed the tiny island group.⁷² After this, the issue of territorial sovereignty over the islands was largely forgotten until post World War II, when Japan was forced to relinquish control of its southernmost territories to the US.

It was during the period of US administration over Okinawa and its surrounding islands that the earliest records of international tension over Diaoyu/Senkaku began to appear. The first of these were over Taiwanese fisherman trespassing on the islands, now the site of a US military training ground, which the US responded to by filing various official complaints with the Chinese government.⁷³

However, the stakes were not particularly high until 1969. That year the UN released a report with survey results indicating the possible presence of massive oil and natural gas reserves under the East China Sea.⁷⁴ Suddenly, barren islands previously noted mostly for their seabird populations skyrocketed in perceived national value. Whether or not it was simply a matter of convenient timing, the US and Japan issued a Joint Statement

⁷¹ Shin Kawashima, "The Origins of the Senkaku/Diaoyu Islands Issue," *Asia-Pacific Review* 20:2 (2013): 123, accessed February 21, 2014, <http://www.tandfonline.com/doi/abs/10.1080/13439006.2013.874619#.Uw-bFnm4mll>.

⁷² *Ibid*, 124.

⁷³ *Ibid*, 126-128.

⁷⁴ Junwu Pan, *Toward a New Framework for the Peaceful Settlement of China's Territorial and Boundary Disputes* (Danvers: Martinus Nijhoff Publishers, 2009), 140.

near the end of 1969. They announced the upcoming reversion of Okinawan jurisdiction back to Japan, a return that would include the Diaoyu/Senkaku Islands.⁷⁵

The issue was further complicated by Taiwan's place in the territorial dispute, making an awareness of its position important to a full understanding of the overall situation. As they also claimed the Diaoyu/Senkaku Islands for themselves, the Taiwanese swiftly took action to publicize their claims after the Joint Declaration. They planted their national flag on the islands and three members of Taiwan's National Assembly travelled there to visit in person. However, when the islands formally returned to Japanese jurisdiction in 1972, Japan chose to derecognize Taiwan as the official government of China and instead forged a formal diplomatic relationship with the mainland Chinese government: the People's Republic of China.⁷⁶ This abruptly shifted the central players in the dispute from Taiwan-Japan to China-Japan.

In the intervening decades, overly enthusiastic nationalists on both sides have made numerous efforts to advance their country's claim. Usually little more was accomplished than the creation of diplomatic irritations: boats sailing from China, Hong Kong and Taiwan continued to try placing flags on the islands, while a Japanese right-wing political group built and then later refurbished a lighthouse there.⁷⁷ Through to the closing years of the 20th century, the dispute usually amounted to little more than a cycle of protests that were then followed by diplomatic management on the part of Beijing and Tokyo to ensure that no real harm was done to their shared economic interests.

1996 can be seen as the year that tensions began to escalate to a new level of intensity. In the aftermath of a nasty trade dispute with China, Japan declared a 200-mile EEZ around the islands.⁷⁸ Simultaneously, the Japanese organization that had previously

⁷⁵ "Joint Statement of Japanese Prime Minister Eisaku Sato and U.S. President Richard Nixon," November 21, 1969, accessed Feb 20, 2014, <http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/docs/19691121.D1E.html>.

⁷⁶ Zhongqi Pan, "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective," *Journal of Chinese Political Science* Vol. 12, No. 1 (2007):73-74.

⁷⁷ Richard C. Bush, *The Perils of Proximity* (Washington: Brookings Institute Press, 2010), 72.

⁷⁸ Andrew J. Nathan and Andrew Scobell, *China's Search for Security* (New York: Columbia University Press, 2012), 125.

built a lighthouse on the islands returned to construct another. The response in China was the mobilization of a nation-wide 'Defending Diaoyu Movement,' which culminated with Beijing permitting a private organization of Chinese activists to attempt three small landings on the islands. During one of these attempted landings, a protester from Hong Kong drowned while trying to swim the remaining distance in rough seas.⁷⁹ Shortly thereafter, Chinese ships, submarines and aircraft intensified patrols around – and sometimes inside – the waters and airspace claimed by Japan.

In addition to a generally high level of simmering tension regarding the Diaoyu/Senkaku Islands, the intervening years have seen a number of significant events that have brought China and Japan closer to a potential boiling point. It was almost a decade after the events of 1996 that the next 'high-profile' events occurred. In 2004, responding to landings on the islands by Chinese activists and increased activity by Chinese oceanographic research vessels, the Japanese Coast Guard deployed a larger patrol ship to replace the smaller ships that had been used before.⁸⁰ The Japanese also confirmed that China had begun the construction of a drilling facility four kilometers from the edge of Japan's claimed EEZ, stoking Japanese fears that Chinese drilling could siphon off gas deposits from beneath their territory. In response, Japan started exploring the East China Sea for gas by sending out survey ships within disputed waters. The Chinese Vice Foreign Minister offered an official protest to Japan, stating it was an "act that infringed upon China's interests and sovereignty."⁸¹

In 2008, the Japanese Diet passed a new law to regulate the navigation of foreign ships within Japanese territorial waters, allowing the Japanese Coast Guard to do on-the-spot inspections of suspicious vessels and empowering them to expel lawbreakers. The two-edged nature of these strengthened legal powers was revealed when an encounter in contested waters ended with a collision and the subsequent sinking of a Taiwanese

⁷⁹ Zhongqi Pan, "Sino-Japanese Dispute over the Diaoyu/Senkaku Islands: The Pending Controversy from the Chinese Perspective," *Journal of Chinese Political Science* Vol. 12, No. 1 (2007):75.

⁸⁰ Richard C. Bush, *The Perils of Proximity* (Washington: Brookings Institute Press, 2010), 72.

⁸¹ Kosuke Takahashi, "Gas and Oil Rivalry in the East China Sea," *Asia Times Online*, July 27, 2004, accessed Feb 21, 2014, <http://www.atimes.com/atimes/Japan/FG27Dh03.html>.

fishing boat.⁸² Although the incident was addressed with a formal Japanese apology, two ships from China's Marine Surveillance Force entered the 12-mile zone around the Diaoyu/Senkaku Islands; a zone that had been declared by Japan as off-limits to foreign vessels. Their arrival seems to have been carefully planned, as it was apparently timed to coincide with a shift change for Japanese patrol boats. This began a 9-hour standoff in which warnings were repeatedly issued to the Chinese ships as they continued to hold in the area. In the aftermath of this series of events, the Deputy Director of China's Marine Surveillance Force announced that "in sea areas where there is a territorial dispute under international law, it is important to display a presence in the sea area under jurisdiction and continue accumulating records of effective control."⁸³ This perspective resonates as a critical point as we move on to look at the chain of events that have unfolded throughout the following years.

In 2010, a Chinese fishing boat captain was arrested for ramming Japanese Coast Guard patrol boats in the seas surrounding the islands. The incident quickly escalated into a major diplomatic row between Beijing and Tokyo. Within two weeks China responded with a major trade sanctions, cutting off all rare earth shipments bound for Japan. These materials were required for the manufacture of many high-tech products and a number of Japanese companies were entirely dependent on China for their supplies, making it a devastating blow to Japan. How this may have influenced Japanese officials can only be speculated on, but the fishing boat captain was released within days in what was widely perceived as a Chinese victory.⁸⁴

In 2012, the next major step in the conflict's escalation occurred. Faced with prospective diplomatic disaster as the right-wing Governor of Tokyo began planning to use public money to buy the Diaoyu/Senkaku Islands from their private owner, the Japanese government purchased three of the islands in order to block his more provocative plan. Japan's decision to do so sparked an angry response, setting off protests across China

⁸² AFP, "Taiwan, China upset as boat collides with Japanese," June 10, 2008, accessed February 18, 2014
<http://www.google.com/hostednews/afp/article/ALeqM5j3kK1pIL7TCGBSset2aBJfSVX4nA>.

⁸³ Richard C. Bush, *The Perils of Proximity* (Washington: Brookings Institute Press, 2010), 73-74.

⁸⁴ Michael T. Klare, *The Race for What's Left* (New York: Metropolitan Books, 2012), 152-153.

and leaving Japanese businesses located there to deal with the backlash.⁸⁵ Since then, there has been a series of further escalations with ships and planes entering the disputed territory with increasing frequency. In January 2013, a Chinese frigate was alleged to have targeted its fire-control radar on a Japanese Maritime Self-Defense Force destroyer near the islands, causing a storm of conflicting media reports in both countries for months.⁸⁶ In July, the Japanese Ministry of Defense released its annual White Paper, recommending significant increases to military capability and specifically noting that “China has been rapidly expanding and intensifying its maritime activities. In particular, in the waters and airspace around Japan, it has engaged in dangerous acts that could give rise to a contingency situation.”⁸⁷ Chinese protests over this announcement soon gave way to a countermove by China in November: the establishment of the East China Sea Air Defense Zone, which notably included the airspace over the Diaoyu/Senkaku Islands.⁸⁸ The most recent development in this long line of increasing tensions was the release of a new Japanese security strategy in December that involves 1 trillion yen (approximately \$10 billion) in increased defense spending over five years. The types of military assets that will be purchased are particularly suited to the defense of Japan’s territorial claims against China.⁸⁹

The Path Forward

Having traced the path of Chinese-Japanese tensions over the Diaoyu/Senkaku Islands from their historical beginnings to the most recent events, we now turn our focus to the

⁸⁵ BBC News, “Q&A: China-Japan Islands Row,” last modified November 27, 2013, accessed February 16, 2014, <http://www.bbc.com/news/world-asia-pacific-11341139>.

⁸⁶ BBC News, “China Media: Japan Radar Lock,” last modified March 19, 2013, accessed February 16, 2014, <http://www.bbc.com/news/world-asia-china-21840243>.

⁸⁷ Ministry of Defense, “Security Environment in the Vicinity of Japan,” *Defense of Japan* (2013), accessed February 22, 2014, http://www.mod.go.jp/e/publ/w_paper/2013.html.

⁸⁸ Xinhua, “Statement by the Government of the People’s Republic of China on Establishing the East China Sea Air Defense Identification Zone,” November 23, 2013, accessed February 22, 2014, http://eng.mod.gov.cn/Press/2013-11/23/content_4476180.htm.

⁸⁹ Shannon Tiezzi, “China Responds to Japan’s Defense Package,” *The Diplomat*, December 18, 2013, accessed February 22, 2014, <http://thediplomat.com/2013/12/china-responds-to-japans-defense-package/>.

factors that have driven these pressures. What is the likelihood that competition for the potential oil and natural gas reserves beneath the East China Sea will lead to conflict?

In trying to answer this question, we will examine a number of points. We will begin with four observations by Richard Bush, Director of the Center for East Asia Policy Studies. Although the points were specifically made in reference to the Chinese-Japanese standoff at the end of 2008, each stands out as being significant in the broader context of the Diaoyu/Senkaku dispute.⁹⁰

1. There is a capability race between China and Japan that demonstrates a continual bolstering of the naval power deployed to the area.
2. Captains of the individual vessels involved have seemed to hold certain levels of discretionary power when choosing how to handle an unfolding situation.
3. Interpretations of contested historical facts and the perception of protecting national honour have been key elements in shaping behaviour.
4. Domestic politics limit the available choices for decision makers.

Based on the observations already presented in this paper, there has clearly been a steady ramping up in terms of the strength of forces deployed to the disputed area. Likewise, many of the incidents examined have had their roots in the actions of a single individual as opposed to that of higher-level decision makers. For example, the Japanese reports covering the alleged 2013 fire-control radar confrontation cited unnamed Chinese officials who pointed to the Chinese frigate commander as being solely responsible.⁹¹

As to Bush's third and fourth points, these also ring true in the framework of the wider debate. As discussed, the documented history of the Diaoyu/Senkaku Islands is not disputed: the friction lies in each country's interpretation of what this history means for matters of ownership. The precise historical background has been less important than

⁹⁰ Richard C. Bush, *The Perils of Proximity* (Washington: Brookings Institute Press, 2010), 75.

⁹¹ Kyodo, "Chinese Officials Admit to MSDF Radar Lock Allegations," March 18, 2013, accessed February 18, 2014, <http://www.japantimes.co.jp/news/2013/03/18/national/chinese-officials-admit-to-msdf-radar-lock-allegations>.

the perspectives and actions of activists on both sides. These groups have been a central factor in the situation's continual escalation. Whether through protests at home, attempts to reach the islands, or through other activities, these groups seem to have had a solid, measurable influence on international policy and limited the options realistically available to decision makers. One such case can be seen when the Governor of Tokyo attempted to purchase the islands with publically raised money. Diplomatic communications between Beijing and Tokyo assured the Japanese government that China would be understanding when Japan purchased the islands to keep them out of the hands of right-wing elements. However, when the Chinese public reaction generated far more anger than anticipated, China in turn responded far more forcefully than it had signalled to Japan.⁹² Decisions by the governments of both countries were shaped by the actions of the general public in this circumstance.

These observations seem to be grounded in a *constructivist* perspective. That is to say, in a school of thought where core aspects of international relations are socially constructed. Such an idea stands in opposition to a rationally oriented theoretical perspective such as *neorealism*: it would primarily assume state decisions to be made through analysis over relative power gains. A neorealist perspective seems to be closer to the default position that is taken by many observers who see the conflict as being mostly about oil and gas. Check any news item on the Diaoyu/Senkaku dispute and you are likely to find a mention of the potential wealth of the East China Sea accompanied by an inference that this is the whole story behind the tensions. The tug-of-war over the islands unquestionably started because of possible reserves beneath the surrounding waters, but is that still what drives each new incident?

In contrast to neorealism, constructivism is a sociological theory useful in that it allows not only for changes in behaviour, but also changes in identity.⁹³ By looking at the

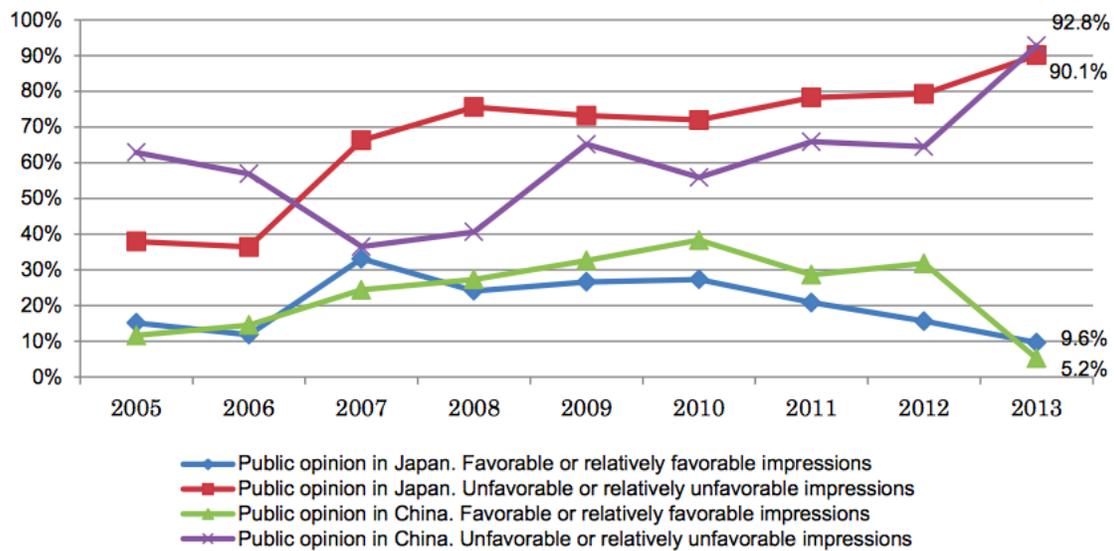
⁹² Yuki Tatsumi, "Senkaku Islands/East China Sea Disputes – A Japanese Perspective," (Workshop Three: Japan's Territorial Disputes, CNA Maritime Asia Project, 2013), accessed February 21, 2014, http://www.stimson.org/images/uploads/research-pdfs/Yuki-CNA_paper_8-2013.pdf.

⁹³ Amitav Acharya, "Regional Institutions and Asian Security Order: Norms, Power and Prospects for Peaceful Change," in *Asian Security Order: Instrumental and Normative Features*, ed. Mutiah Alagappa, (Stanford: Stanford University Press, 2003), 228.

situation between China and Japan through the lens of constructivism, outcomes are no longer all that is important; the process itself takes on importance. The socializing effect of ongoing processes can change identity, even if this change is a very gradual one. The institutional norms and practices that make up the day-to-day business of Chinese-Japanese relations may often seem to hinge on the choices of decision makers, but it is just as valid to see these norms and practices as having been constructed through incremental social processes. Actions by activists have pushed government responses in particular directions, contributing to individual steps in a gradual institutional change that in turn shapes cultural norms.

One way in which these shifting norms can be scrutinized is by assessing public impressions within China and Japan regarding each other. By looking at these metrics over time, one can track variations from year to year and consider the speed in which these changes occur. The chart below was released in “The 9th Japan-China Public Opinion Poll” and uses data from joint surveys conducted by the Japanese think tank The Genron NPO and Chinese newspaper China Daily.⁹⁴

Figure 1: Impressions of Each Other’s Countries – China and Japan



⁹⁴ Genron NPO, The, “The 9th Japan-China Public Opinion Poll: Analysis Report on the Comparative Data,” August 12, 2013, accessed February 24, 2014, http://www.genron-npo.net/english/opinionpoll_9thjc.pdf.

The results are interesting in that they show a gradual decline of public opinion over time, but this by itself does not create a definitive correlation with the Diaoyu/Senkaku dispute. In this case, the 2013 editions of the survey are doubly beneficial since they also collected data on the *reasons* that residents of each country had negative impressions regarding the other. In both surveys, respondents were allowed to give multiple reasons. In Japan, “Confrontation continues on the Senkaku Islands” was the most common response at 53.2%. In China, “Japan causes territorial dispute over the Diaoyu Islands and takes hard stance” was the most common response at 77.6%.

It would overstate the significance of these findings to imply that drastic changes in public opinion cannot occur based on factors other than “changes to social norms through constructivism.” However, the long and steady timeframe over which these changes occur presents us with the possibility that they represent something more significant than a short-term swing in public dissatisfaction. Additionally, the findings are lent further weight by an annual survey conducted by the Cabinet Office of the Japanese government. Since 1978, it has asked 2000 Japanese whether or not they feel an affinity towards the Chinese. From 1988 to 2003, the number of respondents who felt positively about the Chinese was about the same as those who felt negatively.⁹⁵ As of 2004, the number of respondents who feel positively about the Chinese has dropped with relative consistency while those who feel negatively have consistently risen; a timeframe that corresponds with the most dramatic escalation in tensions. Negative feelings towards the Chinese hit an all time low in the 2012 survey, with over 80% of respondents feeling unfavourably towards the Chinese.⁹⁶

Interestingly, constructivism has most frequently been used as a theoretical tool to argue how different states may develop a collective identity through interaction and socialization with each other, even when faced with a neorealist environment in which

⁹⁵ Tomohiko Taniguchi, “Changing Contours of Japan’s Foreign Policy,” in *Emerging China*, ed. Sudhir T. Devare et al. (New Delhi: Routledge, 2012), 189-190.

⁹⁶ Yuki Tatsumi, “Senkaku Islands/East China Sea Disputes – A Japanese Perspective,” (Workshop Three: Japan’s Territorial Disputes, CNA Maritime Asia Project, 2013), accessed February 21, 2014, http://www.stimson.org/images/uploads/research-pdfs/Yuki-CNA_paper_8-2013.pdf.

they are struggling for supremacy.⁹⁷ In this case, it is being applied to illustrate how interaction and socialization can generate tension and create a condition where potential for deepening conflict is the norm.

⁹⁷ Amitav Acharya, "Theoretical Perspectives on International Relations in Asia," in *International Relations in Asia*, ed. David Shambaugh and Michael Yahuda, (Plymouth: Roman and Littlefield, 2008), 69-73.

Chapter 5. Conclusion

As we speculate on how the future may yet unfold regarding China's ambitious policies for acquiring sufficient oil and gas reserves to accommodate its continued growth, the potential international implications are far-reaching. We have already examined the current shape of the world petroleum industry and how China is situated within it, which has led us to the central strategies that it has used in its efforts: opening markets to its state-controlled oil companies and pushing territorial claims that hold rich potential reserves.

In the first of the two case studies that were considered, China's pivot to Africa was looked at in the broader context of international investment and development throughout the continent. By specifically probing the situation in Angola, a clearer picture of the Chinese perspective emerged, one where investment and development are more closely linked than is typical in the West. As Chinese oil companies and investment banks are both under government control, this makes deeper policy coordination possible and is leading to swiftly growing ties to Africa. These quickly developing relationships are clearly seen to be causing concern among Western actors, largely due to the opaque nature of Chinese policy and associated questions regarding the country's future choices as a possible revisionist power.

The second case study dealt with the Diaoyu/Senkaku Islands dispute between China and Japan, tracing the disagreement from historical roots that form the foundation of both claims up to the most recent diplomatic incidents. The case study attempted to illuminate the reasons behind the escalation of tensions over the years, calling into question a commonly held view that the issue is primarily about oil and gas reserves. By looking at shifts in Chinese and Japanese public opinion, constructivist theories on the social development of shared identity were argued to be a far more effective way of explaining how the situation has come increasingly closer to a boiling point.

As China's hunger for oil and natural gas builds, it is essential to carefully deliberate the international implications of China being forced to compete with other nations while seeking to control an ever-larger pool of energy resources. The conclusions drawn from these deliberations are not simply a matter of dry academic debate, but rather, will help to inform global policy choices. The potential paths that lead onwards from this point can be boiled down to two choices: competition or collaboration.

The path of competition can largely be seen as the track on which countries presently work to fulfill their energy requirements. This is principally through exercises of soft power (such as economic investments and efforts at diplomatic engagement as already discussed), with nations seeking to maximise their gains in zero-sum games where their successes come at the expense of others in the international system. After all, for one country to satisfy its territorial ambitions, another must lose; for the oil company of one country to win its bid on a block for exploration, others will fail.

Although the path of competition does not necessarily lead to conflict, the threat undoubtedly exists. Michael Klare, a leading academic in the fields of international security and resource competition, writes of how even a small altercation can conceivably serve as a trigger for a far larger engagement.⁹⁸ Although major powers have so far managed to avoid being drawn into energy-related conflicts with other major powers, this is not guaranteed to continue as such. There have most definitely been recent conflicts over oil, although these have been confined to clashes of major powers against lesser ones: the United States in Iraq and Russia in Chechnya.

Territorial conflicts discussed earlier in this paper (between China and Japan, but also the China-Philippines dispute) could theoretically be subject to dramatic escalation in the event of even a relatively minor skirmish. Both countries have mutual self-defence treaties in place with the US, which has publically warned China that it will stand by its

⁹⁸ Michael T. Klare, *Rising Powers, Shrinking Planet* (New York: Metropolitan Books, 2008), 210-237.

allies militarily should the need arise.⁹⁹ As clearly illustrated in Chapter 4, increased Chinese and Japanese presences around the Diaoyu/Senkaku Islands brings an increased chance of a misstep. The use of 'gunboat diplomacy' runs the risk of drawing the US into a conflict that no one wants to see.

The second path to consider is that of collaboration, a path along which at least some progress has been made. Already, countries partner together in countless small ways and find themselves bound by economic ties that would disadvantage every nation involved if they were abandoned. We have observed one variant of these ties in the relationship seen to exist between China and Angola, which – although heavily flawed – can be argued to work to the mutual benefit of both countries. In other cases, international ties align with liberal peace theory's assumption that economic interdependence encourages peace by providing economic incentives for it.¹⁰⁰ China and Japan's relationship would seem to be one such case: no one would doubt the intensity of the trade relationship between them, as they are respectively the second and third largest economies in the world. Despite their tumultuous tug-of-war over disputed territory, the leadership of both nations manage to keep working past the threat presented by each new incident.

Even with the success that major powers have had in avoiding conflict thus far, Michael Klare predicts that without significant change, the risk of crisis will only increase.¹⁰¹ Fortunately there is another option for China and the rest of the international community: a race to instead be the fastest to adapt to changing global conditions. Here is a choice available to the major political powers that turns their resources and efforts towards the adoption of "new materials, methods, and devices that free the world from its dependence on finite resource supplies."¹⁰²

⁹⁹ Phil Stewart, "U.S. Defense Chief Gets Earful as China Visit Exposes Tensions," *Reuters*, April 8, 2014, accessed April 8, 2014, <http://www.reuters.com/article/2014/04/08/us-china-usa-idUSBREA370N020140408>.

¹⁰⁰ Min Gyo Koo, "The Senkaku/Diaoyu dispute and Sino-Japanese political-economic relations: cold politics and hot economics?" *Pacific Review*, (Vol. 22, No. 2, May 2009): 205-207.

¹⁰¹ Michael T. Klare, *Rising Powers, Shrinking Planet* (New York: Metropolitan Books, 2008), 238-244.

¹⁰² Michael T. Klare, *The Race for What's Left* (New York: Metropolitan Books, 2012), 227.

Renewable energy sources were considered earlier in this paper (Chapter 2), but as was noted there – despite great Chinese enthusiasm for encouraging them – the proportion of energy that China produced through renewable sources was less than 1 percent in 2011.¹⁰³ As for energy projections out to the year 2050, unfortunately they simply do not put renewables anywhere near replacing non-renewables.¹⁰⁴ That said, it should be noted that these same projections assign a massive variance to the potential energy that *could* be provided by renewables in 2050. For example, world solar power was only providing as much energy as one large coal-fired power plant by 2011, but has the potential to provide anywhere from 0%-13% of the world's electricity by 2050.¹⁰⁵ This depends on how effectively technological hurdles can be overcome, a factor that hinges heavily on investment choices that are made from this time forward.

In addition to benefits that will come with eventual adoption of renewable energy, there is now a pressing economic incentive to invest ever more heavily in the development of these alternative energy sources. The cost of oil is rising and will continue to do so. With production increasingly relying on the world's vast, unconventional reserves, it must be recognized that the costs to deliver unconventional oil to world markets are among the highest available. The IEA forecasts that unconventional oil, along with deepwater oil and other high-cost oil sources, will be instrumental in setting future prices.¹⁰⁶

This project weighs two portraits of the future. The first is international competition for the last ounces of our planet's resources, potentially leading to violent conflict between the international arena's great powers. The second is a movement towards deepening collaboration bridging into adaptation that gradually moves the world away from non-renewable resources. Although either could occur under different path-dependent circumstances, as smaller territorial clashes occur, it becomes more probable that far more encompassing conflicts may erupt. However, as has been illustrated, there are many more factors that are likely to move these international tensions to an eventual peaceful resolution. The current structure of the international system is one where

¹⁰³ IEA, "Statistics," accessed March 17, 2014, <http://www.iea.org/statistics/statisticssearch/>.

¹⁰⁴ Laurence C. Smith, *The World in 2050* (New York: Plume, 2011), 61-77.

¹⁰⁵ *Ibid*, 72-77.

¹⁰⁶ IEA, *World Energy Outlook 2010* (Paris: International Energy Agency, 2010), 143.

countries accept (although sometimes grudgingly) that their domestic well-being is intrinsically tied to the well being of the rest of the world.

The threat of conflict that exists as China seeks to obtain more secure access to oil and natural gas is very real, and based on the bad decision of a single individual, it is conceivable that a small-scale conflict could breakout even without the sanction of China's leadership. With the various mutual defence agreements that are in place internationally, such an event could lead to far worse conflict. However, it seems to be a greater likelihood that China will lean towards international collaboration over competition, until new technologies inevitably replace petroleum and relieve the pressures associated with the scarce energy resources that we all scramble for.

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