

**JAPAN, FOIP, AND THE GEOPOLITICS OF ENERGY
IN THE INDO-PACIFIC**

Jeffrey B. Kucharski, PhD
Adjunct Professor
Royal Roads University
Victoria, BC, Canada

April 30, 2020

Introduction

As a parliamentary democracy and the third-largest economy in the world, Japan plays an important role as a defender of the liberal, multilateral, rules-based order in the Indo-Pacific. As China's economic and military influence in the region has grown over the past number of years, Japan has responded by exerting a much greater degree of leadership on a host of issues of concern in the region. This includes traditional and human security, energy, climate change mitigation, and international development assistance.

With respect to security, Japan has a long-standing, multi-faceted, and enduring security alliance with the United States, which forms the foundation for Japan's overall security stance in the region. It also has more limited security co-operation with South Korea and recently has taken the initiative to establish a strategic partnership with India that is both broad and ambitious. The goals of the Japan-India partnership include fostering a robust multilateral regional order, protecting freedom of navigation and the security of sea lanes, and conducting joint maritime defence activities. Japan appears to view its partnership with India as an important balancing strategy against China, particularly in light of recent uncertainty over U.S. reliability and security commitments to the region.

With respect to energy, Japan, China, India, and South Korea are the world's largest importers of crude oil, and all but China rely on imports for 80 percent or more of their needs. Japan in particular depends on maritime shipments of oil, natural gas, and other energy products for all its fossil fuel requirements. China has limited domestic sources of oil and gas, but rising demand means that China's dependence on imported oil will grow from around 70 percent today to 80 percent or more in the next several years. Oil demand in India is expected to soar by almost 30 percent, and its share of global energy demand will rise to 11 percent by 2040. According to the International Energy Agency (IEA), even if UN sustainable development goals are reached by 2040, which is itself rather doubtful, the Indo-Pacific region will remain highly dependent on oil and natural gas for a majority of primary energy demand well beyond 2040. This implies that geopolitical risk will also continue, especially for oil, for several more decades to come.

Japan's energy security policies are largely embedded within its strategic energy plans, which are issued about every three years, the latest being issued in 2018 by METI. While energy supplier and source diversification play a major role in its energy policies, Japan's energy security efforts are not restricted to supplier countries alone. Japan wishes to play a leading role in initiatives to enhance energy security among Indo-Pacific countries because it views that as improving its own energy security situation. As a result, it also seeks to build "comprehensive and mutually beneficial bilateral relations" with consuming countries in the region. Here there appears to be three broad policy aims: first, to promote a competitive energy marketplace in the region; second, to promote adherence to international rules and practices; and third, to promote a multilateral approach to energy co-operation in the region. Specific activities include providing

countries with financial and technical assistance for energy infrastructure projects and human resource development (education and training, etc.).¹

Japan's Security Concerns and the Geopolitics of the Indo-Pacific

The geopolitics of the Indo-Pacific bear directly on Japan's energy and security situation. Consequently, as Japan aims to improve its energy security, it also seeks to improve its overall security situation, particularly in the face of a rising Chinese economic and military presence in the region. As China continues to grow and exert economic and geopolitical influence, Japan fears its own influence, status, and security may be under threat. Japan has therefore tried to balance against China's influence by actively building relationships with other countries in the region, seeking to create allies and partners, enhancing energy trade relations and making major investments in regional infrastructure projects.

Japan views China's moves to lay claim to and exert control over a large portion of the South China Sea (SCS) as a potential threat to Japan's security. The vast majority of crude oil shipments and a large quantity of LNG shipments destined for East Asia must pass through the South China Sea. For example, Japan received 92 percent of its crude oil imports and 50 percent of its LNG imports in 2016 through the SCS.² The Strait of Malacca connects the SCS with the Indian Ocean and is the primary "chokepoint" in Asia, through which about one-third of global maritime crude oil shipments pass. It is also an important transit route for liquefied natural gas.³ China, Taiwan, Japan, and South Korea all rely on the Strait of Malacca, which connects both the SCS and the Indian Ocean, to remain free and open.

The risk that China would intentionally disrupt trade in the sea lanes of the SCS and the East China Sea is relatively low because any disruption would affect all countries, including China, as well as invite a strong response. However, it is not inconceivable that hostilities between China and Taiwan or even a limited conflict between the United States and China in the region could disrupt international trade long enough to cause serious consequences for the global economy. While China could survive a prolonged marine stoppage in oil and gas shipments because it has access to emergency reserves and to pipeline gas and oil, Japan as an island nation could not. Should China gain control over all or much of the South China Sea, it would not even have to actually disrupt the flow of trade. Its de facto control over the SCS would give it potential leverage over other countries that rely on the sea lanes that pass through the region.⁴

Resource competition also plays a role in China's territorial claims and the increasing tensions in the region. It is estimated that the South China Sea contains approximately 11 billion barrels of oil and 190 trillion cubic feet of natural gas in proved and probable reserves.⁵ China's sweeping claims of sovereignty over the SCS, including the oil and gas reserves there, have angered competing claimants such as Vietnam, Malaysia, Brunei, Taiwan, Indonesia, and the Philippines. The HYSY 981 incident of 2014 in the waters off the Paracel Islands was perhaps the most serious incident, whereby a Chinese oil rig began operating in waters claimed by Vietnam. In

2017–2018, a Spanish drilling company hired by Vietnam to drill within its exclusive economic zone was forced to stop drilling twice due to Chinese pressure.⁶ Tensions between Malaysia, Vietnam, and China are rising over China’s harassment of oil exploration vessels in parts of the continental shelf that are thought to be rich in energy and other natural resources.⁷ In early 2020, tensions between China and Indonesia were rising as Indonesia sent fighter jets into the Natuna Sea region, an area abundant in natural resources including oil, natural gas, and fish stocks, to defend against Chinese coast guard ships and fishing vessels that entered Indonesia’s exclusive economic zone.⁸ In short, China is establishing a “new normal” whereby any energy exploration activities by Southeast Asian countries within the so-called “nine-dash line” arbitrarily established by China are being met with challenges by Chinese law enforcement and paramilitary vessels.⁹

Energy and FOIP in the Indo-Pacific

In response to the rise of China, the uncertainty over the U.S. commitment to security in the region, and the withdrawal of the United States from the TPP initiative, the Abe administration began to vigorously promote a new security initiative, which it saw as critically important to helping preserve regional security in the Indo-Pacific, including energy security.¹⁰ The Free and Open Indo-Pacific (FOIP) concept was launched officially by Japan in August 2016.¹¹ The stated intent of FOIP as conceived by Japan is to maintain the rules-based order, freedom, and openness of the region as an “international public good.” This concept is based on three principles, or pillars: (1) upholding the rule of law, including freedom of navigation and free trade; (2) the pursuit of economic prosperity, including economic partnerships and FTAs; and (3) maintaining peace and stability in the region, including capacity-building assistance for maritime law enforcement, humanitarian assistance, non-proliferation, and other non-traditional security initiatives.¹²

Subsequently, in 2017, the Trump administration embraced the FOIP concept, and it released details of its own version of FOIP in late 2019.¹³ The U.S. FOIP vision¹⁴ is similar to the Japanese version, but unlike Japanese descriptions of FOIP, the United States has been stronger in explicitly portraying China as an overt threat to the interests of the international community.¹⁵ For the U.S., “FOIP would aim to defend against the ways a rising China ostensibly threatens the rules-based international order, universal liberal values, and free access to the maritime global commons.”¹⁶

Recognizing the Indo-Pacific region’s dominance in global energy demand and the impact this will have on shaping international relationships, the United States has given energy the central role in the economic component of its version of the FOIP strategy. Energy resources are seen as key to the U.S. commitment to strengthening energy security in the region by providing the means to help it reduce reliance on autocratic regimes (Saudi Arabia, Russia, etc.) for its energy

needs.¹⁷ Through FOIP, the United States and Japan are also financing and constructing power plants and natural gas import facilities throughout the Indo-Pacific region.¹⁸

Energy development and energy security play a central role in both the U.S. and Japanese versions of FOIP. The United States views the exceptionally high level of import dependence among allies such as Japan and South Korea and their exposure to supply disruption as not only a vulnerability, but also a risk to their security alliance. Through its Belt and Road Initiative (BRI), China is expanding its power and influence as it builds energy infrastructure and transportation links across Southeast Asia, South Asia, and the Eurasian continent.¹⁹ The U.S. position is that oil and LNG exports to the Indo-Pacific can help Asia reduce its reliance on imports from the Middle East, strengthen its energy security, and act as a counter to China's growing influence through the BRI.

Energy Co-operation Initiatives

A number of geopolitical developments, including China and Russia's co-operation on the Power of Siberia natural gas pipeline, the energy component of the BRI, and general anxiety over instability in the Middle East, are likely behind a move by Japan and the U.S. to use their diplomatic, financial, and energy resources to provide a counter to these developments. In November 2017, the United States launched two major energy co-operation initiatives: the Japan–United States Strategic Energy Partnership (JUSEP) and the Partnership in Energy Security between Washington and Seoul. These agreements are focused on enhancing energy security as well as co-operation on energy infrastructure investments in the region. Together these developments have been described as the first step toward an “allied energy security” strategy linking energy security co-operation to the development of high-quality infrastructure in third countries while helping to increase demand for LNG in power generation.²⁰

Conclusion

This paper has attempted to demonstrate that Japan has exerted leadership with respect to energy and security policy in the Indo-Pacific in response to the evolving geopolitical situation in the region.

Prime Minister Abe of Japan has championed the Free and Open Indo-Pacific initiative in response to a security environment that is perceived as presenting growing risks to Japan. These risks are primarily geopolitical and derive principally from China's economic and military rise, but also from the loss of faith in the United States as a reliable trading partner and security guarantor. Given that energy security has always loomed large in the universe of policy priorities for Japan, a much more strategic and robust energy policy framework became an imperative, especially after the shutdown of all of Japan's nuclear reactors following the Fukushima nuclear accident. Japan's 2014 and 2018 strategic energy plans reflect a broader, more strategic approach

to transforming Japan's energy system and place even more emphasis on the security aspects of its energy security policies.

Developments in the Indo-Pacific energy and security domains offer Canada opportunities to expand its role and influence in the region while advancing its interests. Energy exports could represent an important strategic lever for Canada in the region. Although Canada currently lags behind the U.S. in its ability to export energy resources offshore, those capabilities are gradually being built as the TMX pipeline construction proceeds and new LNG export facilities are planned or under construction on Canada's West Coast. These projects have not so far been significantly disrupted by COVID-19 restrictions, the economic recession, or environmental protests and remain on schedule. While there has been significant demand destruction as a result of COVID-19 restrictions and extreme financial pressure on oil companies as a result of the precipitous fall in oil prices, the longer-term outlook for Canadian oil and gas export projects remains positive. Ironically, U.S. shale producers are at much higher risk of failure given their weaker financial positions and the lower productivity of shale oil wells. So-called U.S. "energy dominance"—highly touted by President Trump over the past three years—has now come under severe threat.

Within the Indo-Pacific, there is no more natural a strategic partner for Canada than Japan. Canada and Japan share fundamental values and are complementary trading partners. The two countries are both members of the CPTPP trade agreement, both are allies of the United States, and both share a long-term interest in preserving peace and security in the Indo-Pacific. Japan's Agency for Energy and Natural Resources has recently indicated that it views Canada on par with the U.S. and Australia as a potential strategic partner in energy and wishes to create a "strategic energy dialogue" covering a range of energy issues including oil, natural gas, nuclear power technology, and "green hydrogen."²¹ Ironically, Canada's energy sector may be better positioned to play a stronger role in Japan and in other Indo-Pacific markets than some of its U.S. counterparts once the current rationalization of the North American energy sector runs its course.

Given the wide range of disruptive events and issues that have impacted the Indo-Pacific and Canada's relations with China in particular, a new strategic framework is required for charting the future direction of Canada's trade, security, and foreign policy course in the Indo-Pacific. Canada's energy resources can play a pivotal role within this framework to help advance Canada's interests in the region, and therefore the development of a *strategic energy resources strategy* is also called for. Such a strategy would recognize that energy resources, particularly crude oil, LNG, uranium, and rare earth minerals, have strategic value, and leveraging them would help Canada advance its broader trade, security, climate, and diplomatic interests in the region.²²

Canada should work toward completing a formal *strategic partnership agreement (SPA)* with Japan that would spell out mutual co-operation in various domains, including energy and security. This initiative could build on the statement by Prime Ministers Abe and Trudeau that “reaffirmed that they would further strengthen their strategic partnership under the vision of a ‘free and open Indo-Pacific’” during their bilateral meeting during the G7 Summit in Biarritz, France, in August 2019.²³ Building on the experience gained from striking an SPA with Japan, Canada could then move to forge SPAs with South Korea, Taiwan, India, and other countries that share Canada’s fundamental principles and aims in the Indo-Pacific.

Notes

¹ METI, “Strategic Energy Plan of Japan (2018),” *Agency for Natural Resources and Energy, Japan* (2018), <http://www.enecho.meti.go.jp/en/>.

² K. Koga, “Japan’s ‘Free and Open Indo-Pacific’ Strategy: Tokyo’s Tactical Hedging and the Implications for ASEAN,” *Contemporary Southeast Asia Singapore* 41, no. 2 (August 2019): 286–313, doi: <http://dx.doi.org.ezproxy.royalroads.ca/10.1355/cs41-21>.

³ EIA, “The Strait of Malacca, a Key Oil Trade Chokepoint, Links the Indian and Pacific Oceans – Today in Energy – U.S. Energy Information Administration (EIA)” (2017), <https://www.eia.gov/todayinenergy/detail.php?id=32452>.

⁴ B. Byers, “What Canada Can Do About Chinese Aggression in the Indo-Pacific Region,” *Macdonald-Laurier Institute* (November 20, 2019).

⁵ EIA, “South China Sea – International – Analysis – U.S. Energy Information Administration (EIA)” (2013), <https://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=SCS>.

⁶ Reuters, “Vietnam Halts South China Sea Oil Drilling Project Under Pressure...,” *Reuters* (March 23, 2018).

⁷ D. Evans, “Beijing Harasses Petronas and Shell off Malaysia – News for the Oil and Gas Sector,” *Energy Voice* (April 24, 2020), <https://www.energyvoice.com/oilandgas/asia/237214/beijing-harasses-petronas-and-shell-off-malaysiamal/>; R. Heydarian, “What Will Beijing Do Now That Malaysia Has Discovered the Art of the Deal in the South China Sea?,” *South China Morning Post* (December 29, 2019).

⁸ Reuters, “Indonesia Deploys Fighter Jets to Natunas Amid Tensions with China,” *Radio Free Asia* (January 7, 2020), <https://www.rfa.org/english/news/china/indonesia-natuna-01072020170050.html>.

⁹ Asia Maritime Transparency Initiative, “Malaysia Picks a Three-Way Fight in the South China Sea,” *Asia Maritime Transparency Initiative* (February 21, 2020), <https://amti.csis.org/malaysia-picks-a-three-way-fight-in-the-south-china-sea/>.

¹⁰ Based on remarks by Tadashi Maeda, Governor, Japan Bank for International Cooperation (JBIC), October 17, 2019. See <https://www.csis.org/events/japans-infrastructure-development-strategy-supporting-free-and-open-indo-pacific>.

¹¹ Y. Hosoya, “FOIP 2.0: The Evolution of Japan’s Free and Open Indo-Pacific Strategy,” *Asia-Pacific Review* 26, no. 1 (January 2019): 18–28, doi: 10.1080/13439006.2019.1622868.

¹² Y. Hosoya and N. Szechenyi, “Working Toward a Free and Open Indo-Pacific,” *Carnegie Endowment for International Peace* (October 2019), <https://carnegieendowment.org/2019/10/10/working-toward-free-and-open-indo-pacific-pub-80023>; MOFA, “Towards Free and Open Indo-Pacific,” *Ministry of Foreign Affairs, Japan* (November 2019), https://www.mofa.go.jp/policy/page25e_000278.html.

¹³ See U.S. Government, “A Free and Open Indo-Pacific: Advancing a Shared Vision,” *U.S. Department of State* (2019), <https://www.state.gov/a-free-and-open-indo-pacific-advancing-a-shared-vision/>.

¹⁴ The U.S. version of FOIP states: the United States is implementing a whole-of-government strategy to champion the values that have served the Indo-Pacific so well: (1) respect for sovereignty and independence of all nations; (2) peaceful resolution of disputes; (3) free, fair, and reciprocal trade based on open investment, transparent agreements, and connectivity; and (4) adherence to international law, including freedom of navigation and overflight.

¹⁵ Hosoya and Szechenyi, “Working Toward a Free and Open Indo-Pacific.”

¹⁶ Hosoya, “FOIP 2.0: The Evolution of Japan’s Free and Open Indo-Pacific Strategy.”

¹⁷ Asia Times, “Energy Key to Luring India into US Indo-Pacific Strategy | Opinion,” *Asia Times* (September 18, 2018), <https://www.asiatimes.com/2019/07/opinion/energy-key-to-luring-india-into-us-indo-pacific-strategy/>.

¹⁸ S. Ladislav and N. Tsafos, “Energy Spheres of Influence,” *CSIS* (September 2019), <https://www.csis.org/analysis/energy-spheres-influence>.

¹⁹ N. Tsafos, J. Choi, and M. Herberg, “Revolutionizing LNG and Natural Gas in the Indo-Pacific,” *The National Bureau of Asian Research (NBR)* (2019), <https://www.nbr.org/publication/revolutionizing-lng-and-natural-gas-in-the-indo-pacific/>.

²⁰ J. Maxie and T. Masuda, “Next Steps Toward Allied Energy Security,” *The National Bureau of Asian Research (NBR)* (December 20, 2017), <https://www.nbr.org/publication/next-steps-toward-allied-energy-security/>.

²¹ Based on an interview in April 2020 with a senior executive in METI’s Agency for Natural Resources and Energy (ANRE).

²² For further discussion and recommendations, see the recently published report: J. Kucharski, “Canada’s Strategic Energy Resources,” *Leveraging Canada’s Strategic Energy Resources in the Indo-Pacific*, MacDonald-Laurier Institute (April 2020), <https://www.macdonaldlaurier.ca/leveraging-canadas-strategic-energy-resources-indo-pacific-new-mli-report/>.

²³ Ministry of Foreign Affairs, Japan, “Japan-Canada Summit Meeting,” *Ministry of Foreign Affairs of Japan* (August 24, 2019), https://www.mofa.go.jp/na/na1/ca/page3_002867.html.