



Japan's visible hand at China's gas

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Introduction

China has been aggressively scooping up petroleum resources and mineral resources outside the country. So does Japan. These two titans have many conflicts over years. There is a very interesting event that involves Canada's Ivanhoe Energy's project in Sichuan of China. Ivanhoe farms out the drilling to Mitsubishi of Japan subject to China's approval. This is definitely raises many questions.

Friend or Foe

Japan has been a friend and a foe of China at different plane. Without Japan, the Communist China will lose the chance to contact the western world such as the America. Although British has among the first group of countries which recognized the Communist China government, the help from there has been weak until the most recent years that Europe relies on China's export of deflation to keep their inflation in check.

Politically and militarily, China and Japan have over centuries of unfriendly relationship starting from the Ming Dynasty which is about 600 years ago when Japan expanding the sea territory. Taiwan and many Pacific islands have been the target. Even the Guam, where American has its navy base for the Pacific fleet, was China's territory. The treachery relationship escalated when the East China Sea and South China Sea's petroleum resources have been discovered.

From the national protection level, China takes a firm and conservative but open policy. The open policy is especially important to Japan and Korea. Japan has been the major technologies export country to China in the area of consumer and high tech electronics. Without Japan's technology assistance, the advancement in the high tech sector could be delayed. Since electronic is the mother of all modern industry, this would also delay the time table of other industry.

Other than the electronics, two additional helps comes from Japan: finance and heavy industry. It sounds like a strange situation, while the military of two countries are in a hostile stance but the Japanese banks have been very loose with their purse string. Many important constructions and heavy machinery projects are actually financed by Japan. This could be explained that Japan's deflationary economy requires a place to invest while the American is very defensive on the oversea investment. The alternative is China. However, this is not just a trend in the last quarter of a century. Japan has been intimately helping the Chinese Nationalist and Communist parties during the first half of the 20th Century.

The confusing state is generally regard as the result of culture tie between two countries which could be traced back to the T'ang Dynasty when the Chinese monk went to Japan to preach Buddhism.

Even in the '70 and '80, Japan has been China's role model of success. Studying the economic strategies of China from the '70 to now, you could see a lot of parallelism. This parallelism has been broken.

Politics

While the fight on the sea territory is vicious and ferocious, China has been openly announced that China is willing to share the natural resources that Japan is seeking. The aggressive action from Japan to gain a seat in the UN's Security Council has caused a lot of caution because of the expansion of the Japanese armed forces. It is believed that the American will support Japan on this issue, China will for sure to exercise her veto power. To balance the situation, the carrot and stick is used by China. On the political front, it will be firm on no Security Council seat for Japan. On the other hand, to sooth the situation, China is sharing the precious petroleum resources on her term and condition.

Japan's petroleum team has some success in the Middle East and Africa. With its vigorous planning and high efficiency management, it is something that the Chinese should learn from. The culture of work ethic is also the contemporary Chinese society could borrow.

Face

This is a Shanghai colloquial which means pride and ego projected by a person or country. The Western picked up this vivid expression when they set up their rented concession in Shanghai. The most important aspect of face is to give someone a stair to change their position in a gracefully way. Although China wants to share the natural resources, the action could be difficult due to many political and social considerations. Ivanhoe is a Canadian company developing projects in China. The 10% interest takes up by Mitsubishi with the permission by China is the stair that China and Japan willing to walk. Ivanhoe becomes the middleman. As we all know that middleman usually get rich. Toady, January 3, 2006, Ivanhoe Energy's share price rammed up to C\$1.53 from C\$1.23; up 24.39%.

In the future, it could be more such deals signed. It would not be a surprise that China and America may also need a third person to close a deal.

Reserve in China

Traditionally, petroleum reserves in China are associated with the coastal line, Inner Mongolia and Zhandong (at northeast) of China. The Sichuan basin of the Ivanhoe project is located about 1,500 Km southwest of Beijing. In the reference below it states that the basin is the country's largest gas producing region with a reserve of 260 trillion cubic feet. This is about 4 times of Canada's reserve of 5.6 tcf (from CAPP.ca). While Canada has been regarded as resource rich, this has shown the hydrocarbon reserve in China could be significantly underestimated in the past. This leads to a question on the Japan's visible hand at China's gas 2006.01.04

theory that China's energy industry is heavily depending on import. The Chinese reserve may have to be closely monitored. If American has a recession, the energy supply from Middle East and Canada may not be picked up by China. Rather, China will take this opportunity to develop its energy infrastructure.

Resource

1. Mitsubishi Gas Chemical farms into Ivanhoe Energy's Sichuan Project in China.
http://www.ivanhoe-energy.com/s/NewsReleases.asp?printVersion=now&_Title=Mitsubishi-Gas-Chemical-farms-into-Ivanhoe-Energys-Sichuan-Gas-Project-in-C...&ReportID=125547