

CHAPTER I

INTRODUCTION

A. Background

Located in the western Pacific Ocean, Japan has four main islands: Hokkaido, Honshu, Shikoku and Kyushu. The geographical situation that consists of rugged terrain provides Japan with little arable land and small deposits of natural resources. Consequently, Japan has suffered in sustaining its large population on an island. Hence, Japan has few domestic energy resources and long been characterized poor in resources such as oil and natural gas. The lack of energy resources made energy issue to become one of the problematic issues in the country. Therefore, energy resources predicament that Japan is facing has made many strategies for Japan to secure its energy supply, ranging from doing expansions into several areas to gain the natural resources, cooperating with energy producing countries, relying heavily on import of energy supply, until trying to produce energy domestically by having nuclear power plants.

From 1630 to 1867, Japan was under the long-reigning Tokugawa shoguns and isolated from the rest of the world (History.com Editors, 2009). At that time, the economy of Japan relied heavily on agriculture with few industrial sectors and kept it closed from international trade (Fathoni, 2018). Once dismissed an isolated nation, Japan underwent a revolution known as the Meiji Restoration (1868 – 1912). This is the beginning of Japan's road to modernization where the revolution embraced industrialization in the country, started to build up its military and restored Japan's emperor as the powerful head of state (Sumikawa, 1999). In addition, export and import activities started to develop in Japan. In exchange for essential products such as coal and oil that Japan needed, the country exported luxury items, such as silk. Japan, who modernized its government and military became an aggressive country. During this period, Japan was passionate and had an ambition to expand its empire. The two successful wars against

China in Sino-Japanese war (1894 – 1895), and the Russo-Japanese war (1904 – 1905) marked that Japan had grown into a vast empire and become an imperial superpower (Pruitt, 2019). As the result, Japan experienced great economic success and did a successful participation in World War I by 1920s (Pruitt, 2019).

World War I affected the world political arena into a tension. After the war, many countries were worried about the threat of war that could be happened in the future. This political tension had made many countries competing to build a fleet of combat, including Japan. Thus, Japan must ensure it has adequate natural resources to protect the country and to win a war. However, Japan's geographical difficulty made up of mountainous and volcanic islands, gives the country with little land for farming and few natural resources (Worldview.stratfor.com Editors, 2013). Moreover, when the great depression in 1930s, Japan's economic prosperity that depended heavily on foreign trade, its economy experienced the economic downturn. Its military leaders, who dominating the politics in Japan at that time, argued that its financial ruins were due to a lack of space and resources.

The military leaders insisted that Japan needed to expand their empire through conquest and colonization. Therefore, Japan invaded nearby China, particularly Manchuria in 1931 for its abundant resources such as iron, soya beans, and land for farming (Pruitt, 2019). As the result of successful conquest, Manchuria became the prime source of iron, steel, and coal for Japan. During this time, the international response toward Japanese expansion was not firmly respond to any Japanese expansion while in fact, as a longstanding Chinese ally, the United States (U.S.) was only condemned Japan's aggression. Then, Japan was still continuing its expansion until tensions rose in 1937, when Japan invaded the capital of the Chinese Nationalist Party, Nanjing (Overy, 2013). In doing so, they did mass killings and rapes which disturbing American opinions against Japanese. Then, the U.S. responded by attacking Japan's resources. The U.S. imposed economic sanctions of aircraft,

scrap metal, and other items crucial to Japan's military in order to stop the Japanese expansion (Pruitt, 2019).

Nevertheless, the economic sanctions did nothing to deter Japan's aggression. In response, Japan signed an agreement with the two fascist regimes, Germany and Italy known as The Tripartite Pact in Berlin on September 27, 1940. The reason was because those countries had a similarity: controlled by militaristic governments that was obsessed with conquest and driven by a sense of nationalism. As the result of this agreement, the U.S. responded with a trade embargo on oil and steel. A trade embargo imposed by the U.S. against Japan, which relied on imports of oil and an embargo from the U.S. that was the main source of oil for Japan, would not only destroy Japan's economy but also its military. Thus, it was an absolute disaster for the resource-poor country and forcing Japan to halt its expansions.

Japan resented the U.S. for interfering in its quest to dominate Asia and decided to attack the U.S. fleet in the Pacific to occupy Southeast Asia and claim its resources. On December 7, 1941, Japan sent aircrafts to bombard the U.S. naval base at Pearl Harbor. Japan's attack on Pearl Harbor was astonishing the world who never thought that Japan had a great power to destroy the U.S. naval base in about two hours. One day later, the U.S. declared war on Japan. "The attack on Pearl Harbor marked the beginning of the Pacific War as a part of World War II" (Axell & Kase, 2002; p. 29). During the war, Japan with few natural resources sought to occupy the Dutch East Indies, British Malaya, and several other locations in Southeast Asia and the Pacific to get resources such as oil and rubber (Afe.easia.columbia.edu Editors, 2009).

By the attack of the U.S. over the Japanese cities of Hiroshima and Nagasaki, Japan announced to surrender in World War II. The defeat of Japan required Japan in giving up the country's military and defense affairs to the U.S. as an alliance and relied on the U.S. for its protection from outside forces as constituted under the Constitution of 1947 (Takada, 1999; p. 7). Since then, the development of Japan's military power was restricted, and Japan must submit to the U.S. system.

Moreover, the basic line of Japan's foreign policy is determined by its membership in a military and political alliance with the U.S. (Panov, et al., 2019). This military restriction led to the decrease in spending for military and defense forces for Japan, brought the country to experience "economic miracle" (Takada, 1999; p. 7).

Correlating with the economic situation by the end of World War II, the Japanese economy faced numerous problems and in need to reconstruct its economy. One of the problems was the shortages of energy. Right after the defeat, coal as the main sources of energy dropped significantly. In addition, during the post war reconstruction, the U.S. led the Allies in occupation and rehabilitation of Japan (Office of the Historian Editors, 2019). Under the occupation, "the allied force tried to democratize Japan on political and economic" (Otsubo, 2007; p. 7). With the reform were set forth by the Supreme Commander for the Allied Powers (SCAP), Japan experienced rapid post war economic growth that increased the nation's energy consumption. Therefore, by the 1960s, Japan has made decision to shift its dependence from coal to oil in its energy supply (Agency for Natural Resources and Energies, 2018).

In the wake of two oil crises in the 1970s has made this resource-poor country to suffer. The two oil crises caused the Japanese economy to experience a negative growth rates for the first time in its post-war history. In addition, the development of industries and energy demand in the country were increasing simultaneously. Therefore, Japan had tried to diversify its energy supply in order to increase its energy security and to avoid excessive reliance on fossil fuels through the development of nuclear power plants (Nippon Editors, 2018). Re-evaluation of domestic energy policy to reduce the country's dependence on energy imports in the aftermath of the two oil crises resulted in a major nuclear construction program (World Nuclear Association, 2019a). Moreover, a transformative policy of the Strategic Energy Plan of Japan constituted has increased the dependency on nuclear energy to 53 percent (Hayashi & Hughes, 2013).

However, following the wake of the Great East Japan Earthquake, in March 11, 2011 the government sought to greatly reduce the dependence on nuclear power as much as possible (World Nuclear Association, 2019a). A 9.0 magnitude earthquake struck in the Pacific Ocean off the northeast coast of Japan's Honshu island, triggering a large tsunami. The great earthquake and tsunami affected several energy infrastructures and caused a nuclear catastrophe in Tokyo Electric Power Company (TEPCO's) Fukushima Daiichi nuclear power plant. This chain of great earthquake, tsunami, followed by nuclear disaster known as the triple disaster. The aftermath of the great earthquake accident resulted in the loss of nuclear power for safety concern. Hence, the liquefied natural gas (LNG) played a significant role in substituting the absence of nuclear power as LNG is one of the cleanest, safest and most useful burning fossil fuels. The lack of supply in natural resources actively sought Japan for its participation in natural gas exploration and production projects abroad as well as considering on imports of LNG from several countries such as Southeast Asian countries, Middle East countries, to a country that has a complexity in relationship, Russia.

From the perspective of energy security, Japan's LNG import has become increasingly diversified with number of suppliers to Southeast Asian countries. In 1977, the Japanese government supported projects and shipments of LNG from Southeast Asian country, Indonesia as one of the major LNG producers (Vivoda, 2014). Throughout the 1990s, Indonesia accounted for more than one third of global LNG exports and most of the LNG production is exported to Japan, Korea, and China. In 1973, there was an LNG sales contract, called "The 1973 Contract" that was approved by five Japanese companies: Chubu Electric Co., Kansai Electric Power Co., Kyushu Electric Power Co., Nippon Steel Corp. and Osaka Gas Co. Ltd that contains the commitment of buyers to import LNG Indonesia for 20 years. This contract was the biggest LNG sales contract at that time. From 1996 until 2002, Japan was the top buyer of LNG Indonesia which accounted for more than 50 percent of Indonesian LNG export (Desyanthie, 2005).

However, the Japanese government implemented a policy for diversification of supplier in 1995. Japan regulated that share of LNG market from one country should not be more than 50 percent (Desyanthie, 2005). Consequently, share of Indonesian LNG market in Japan began to fall under 50 percent. Diversification of energy supply sources had made Japan to consider another region for maintaining its energy supply.

As a part of Middle East country, Qatar is the largest LNG producer in the world. In 1996, Japan signed an agreement with Qatar to import 6 million tons of LNG for the next 25 years (International Business Publication, 2014). Qatar Gas started to export the first LNG cargoes to Chubu Electric at Kawagoe's terminal in 1997. This was followed by building stronger relations with various Japanese companies. Hence, Japan is a key customer for the development of Qatar's LNG industry in the 1990s and continues to be one of Qatar's strongest markets for LNG (International Business Publication, 2014). Moreover, after the great earthquake in 2011, Japan's LNG imports from Qatar amounted to 15.65 million tons in 2012, double the amount in 2010 (Iida, 2017). This reflecting that at the beginning of the crisis, Qatar was one of the first countries that give a fast action to help Japan. Additionally, in 2012, Qatar signed long-term contracts bilaterally with Kansai Electric Power Company Incorporated (KEPCO) and Chubu Electric Power Company Incorporated (Chubu Electric) which considered as the largest electricity companies in Japan. The long-term contracts highlight the importance of Japan to Qatar and vice-versa and continues partnership of Qatar to support energy security in Japan (Al Subaey, 2017). Therefore, the cooperation between Japan and Qatar in LNG is becoming the focus to boost further cooperation and build stronger relations between the two countries. However, the Japanese policy tends to diversify of resources has made Japan to consider another alternative supply which considering Sakhalin (Russia) for new long-term contracts.

Despite various risks in having relations with Russia, Japan has made decision to secure energy supply with deepening energy dependence on Russia. Since the turn of the millennium,

Japan relations with Russia have evolved to a complex of intensifying diplomacy and increasingly intertwined economies (Richardson, 2010). Many aspects of Japan and Russia relationships remain problematic even unresolved. Both countries are still technically at war until today where Japan and Russia have been feuding over the Kuril Islands (McKirdy, 2019). There has been no peace agreement since World War II relating to this matter. The Kuril Islands is a group of tiny islands in the northern Japan and close to eastern Russia that handed over by Japan to the Soviet Union after the defeat in World War II. However, the allocation of Japan's former territory became a problematic topic until today where the territory is administered by Russia and Japan is still considered the islands as their own land. Additionally, the territorial dispute is also a focus of attention of Japan's closest ally, the U.S. government (Tanaka, 1993). These considerations have restricted the development of Japan and Russia relations. Hence, it will likely be difficult for Japan's cooperation with Russia to expand beyond its current bilateral relations in the near or distant further.

As one of the world's top oil and gas resource-rich countries, the energy sector remains the main strategic area of investment cooperation between Russia and Japan. Moreover, due to the nuclear power in Japan has decreased after the Great East Japan Earthquake, the overall cost of LNG imports to Japan has nearly doubled. Hence, a range of ongoing economic projects involving Japanese companies in Russia have developed, particularly in respect to the energy field. Japan is involved in some of the major Russian projects such as, Japanese consortium SODECO (Sakhalin Oil and Gas Development Co Ltd)'s share in the Sakhalin-1 project amounts to 30 percent, while Mitsui and Mitsubishi own 12.5 percent and 10 percent shares respectively in Sakhalin-2. In June 2008, the Japan Bank for International Cooperation (JBIC) and a consortium of international commercial banks agreed to finance the project for \$5.3 billion. The project of Sakhalin-2 went online in February 2009, was exported 80 percent of the LNG production to Japan as well as 20 percent of total oil production at Sakhalin-1

(Panov, et al., 2019). Other than that, there are many oil and LNG projects currently underway that will involve Japanese firms (METI, 2013).

In order to further develop bilateral relations and enhance Japan-Russia cooperation, Japanese Prime Minister, Shinzo Abe who took the office in December 2012 is intensifying friendly relations with Russia in various fields, particularly economy (Brown, 2016). This is projected in the Eight-Point Economic Cooperation Plan proposed by Prime Minister Shinzo Abe in May 2016, which envision of cooperation in such areas as medicine, urban development, small and medium-sized enterprises, energy, industrial diversification in Russia, the development of industry in the Russian Far East, cutting-edge technologies and people-to-people interaction (“Japan’s Eight-Bullet-Point Proposal for Economic Cooperation with Russia,” n.d.).

In this research, behind the examination on the substantive issues considering Japan’s decision to cooperate with Russia in the LNG Projects, specifically, this research demonstrates how the assumptions and arguments of Rational Actor Model help explicate the nature of Japan’s cooperation with Russia in the LNG Project.

B. Research Question

Given the background described in the previous section, this study expected to answer the following research question:

Why did Japan cooperate with Russia in the Liquefied Natural Gas (LNG) energy project?

C. Theoretical Framework

In definition, foreign policy is the strategy governments use to guide their actions in the international arena (Goldstein & Pevehouse, 2014; p. 146). According to Plano and Olton (1980), foreign policy can also be defined as “a strategy or planned action developed by a decision maker from a country against another country or international units used to achieve certain goals based on national interests”. Thus, foreign policy is not

only strategies but also the actions that the country is going to have towards another.

As a field of study, foreign policy is the study of the process, effects, causes, or outputs of foreign policy decision-making in either a comparative or case-specific manner (International Studies Association., 2005). Foreign policy is the outcome of the underlying and often implicit argument theorizes that human beings, acting as a group or within a group, compose and cause change in international politics (International Studies Association., 2005). Therefore, foreign policy is the result of discussions and efforts made by those in power. Moreover, in foreign policy decision making, “there is a universally applicable dictum that says foreign policy is always based on national interests in order to achieve the national goals of its nations. The national goals is actually an elaboration of the national interests of the nation state” (Morgenthau, Hans Joachim & Thompson, 1997). Thus, foreign policy is inseparable from national interests, therefore, the government in deciding a foreign policy certainly consider the feedback for their countries. In explaining foreign policy decisions, there are various ways of how foreign policy is taking a place, one of them is Rational Actor Model. Hence, with the objective to analyze the research question as mentioned before, this study uses the model of Rational Actor by Graham T. Allison.

Rational Actor Model

Graham T. Allison describes three models of foreign policy analysis in his book ‘Essence of Decision Making: Explaining Cuban Missile Crisis’:

- 1) Rational Actor Model
- 2) Organizational Behavior Model
- 3) Governmental Politics Model

From those three models of foreign policy analysis, this study uses Rational Actor Model to analyze the phenomenon. This study finds its principal theoretical basis in the model of Rational Actor based on the data findings that Japan’s foreign policy making after the great east Japan earthquake in

cooperation of LNG with Russia is a decision made by the Japanese government itself.

Rational Actor Model is a model to explain international events by recounting the aims and calculations of nations or governments (Allison, Graham & Zelikow, 1999; p. 13). Generally, Rational Actor Model is based on premise that the individual actors in the decision-making process act rationally and seek to achieve their own goals in competition with one another. In addition, according to this model argues that the governments are the unitary actors in foreign affairs. Rational Actor Model holds that the governments must anticipate the outcomes of foreign policy and calculate the costs and benefits of each possible course of action for attaining the state's goals and then decide actions that are optimally have the highest benefits and lowest costs. Therefore, the core concepts established under this model are goals and objectives, alternatives, consequences and choice.

Goals and objectives refer to “the interest and values of the agent are translated into a payoff or utility or preference function, which represent the desirability or utility of alternatives sets of consequences. Ranks all possible sets of consequences in terms of her or his values and objectives – number of side effects” (Allison, Graham & Zelikow, 1999; p. 18). In the concept of alternatives, Allison explained that “the rational agent must choose among a set of alternatives displayed before her or him in a particular situation” (Allison, Graham & Zelikow, 1999; p. 18). Thus, the chosen alternative will be the output of the decision. However, there will be consequences implied in the decision which rational actors takes to consider that “to each alternative is attached a set of consequences or outcomes of choice that will ensure if that particular alternative is chosen” (Allison, Graham & Zelikow, 1999; p. 18). As the last concept, choice explained that the rational agent selects the alternative whose consequences ran highest in terms of his goals and objectives (Allison, 1968; p. 8). In conclusion, Rational Actor Model is explained that foreign policy as the outcome of the government's decision who act rationally and has gone through calculation process of cots and benefits for the country.

In this thesis, it examines the position of Japan as evidenced by the existence of bilateral relations between the two countries in the Liquefied Natural Gas energy projects. On the one hand, Japan needs Russia as an LNG supplier, because Russia is one of the world's top oil and gas resource-rich countries. Russia could also be a supporting factor of reducing the dependency in energy resource from the Middle East that is politically unstable. On the other hand, the relations between the two countries are hampered due to Japan is a special ally with the U.S. in which those western countries are having a complicated relationship with Russia and unresolved territorial dispute.

Japan in this term is currently acting as a Rational Actor to determine the best policy to be taken for maintaining domestic energy supply. According to this study, Japan has two alternatives which can be taken to fulfill the domestic demand of energy, as follows:

- 1) Japan cooperates with Russia in the Liquefied Natural Gas project.
- 2) Japan does not cooperate with Russia in the Liquefied Natural Gas project.

Of the two alternatives that Japan can decide, there are benefits and costs calculation for each alternative. Here, this study has analyzed the benefits and costs calculation of each alternative as described through the following table:

Table 1. Costs and Benefits Calculation of the Alternatives

Alternatives	Benefits	Costs
<p>Japan cooperates with Russia in the LNG project.</p>	<ol style="list-style-type: none"> 1) Japan can reduce its dependency of energy on the politically unstable such as the Middle East. 2) Japan can secure and prioritize the energy sector in their relationship with Russia. 3) Russia has availability in providing the energy sources that Japan needed. (Abundant supply) 4) The geographical proximity between Japan and Russia has been the primary objective that has secured Japan after the great east Japan earthquake accident. 5) Japan can ensure long-term supply source in the face of buyer competition by having diversification of supply source. 6) LNG as a tool for Japan to enhance the relationship with Russia relating the Northern Territories. 	<ol style="list-style-type: none"> 1) Russia has complicated investment procedure as an obstacle to the further development of cooperation. 2) Japan's allies and countries in the West sanction against Russia, which threaten Japanese companies that do business with Russia.
<p>Japan does not cooperate with Russia in the LNG project.</p>	<ol style="list-style-type: none"> 1) Japan is having diversification of supply source from its allies such as the U.S. and Australia. 2) Japanese companies have flexibility in future contract and larger role for spot trading in those countries. 3) Japan can get appreciation from its Allies because of taking the same view towards Russia. 	<ol style="list-style-type: none"> 1) Japan cannot maintain the steady relation of trust with Russia. 2) Japan will be more dependent to the Middle East countries in providing energy sources. 3) Japan cannot get relatively affordable energy sources. 4) The access of energy sources from other countries will be more difficult as Japan is an island nation.

From the two alternatives owned by Japan, the alternative of cooperating with Russia in LNG project had more benefits, namely six and the least losses, namely two compared to the alternative of not cooperating with Russia in LNG project. As a Rational Actor, of course Japan took the alternative that had most benefits and smallest losses for Japan.

D. Hypothesis

According to the background and the theoretical framework above, Japan cooperated with Russia in the LNG energy project because:

- 1) LNG cooperation with Russia is a strategy for Japan in securing energy supply.
- 2) Japan expected that LNG cooperation will advance negotiations on the Northern Territories issue.

E. Scope of Research

This study used state as the level of analysis, which all discussions referred to the states as the main actors. The scope of this writing included the event of Great East Japan Earthquake in 2011 as the discussion of energy issue in Japan and some explanations that occurred before and after the disaster.

F. Research Methodology

In order to meet the objectives of the study, the method in this study was explanatory with qualitative approach that is a method to understand reasons why a subject makes certain choices by utilizing data obtained from the library research related to the topic, then drawn into a conclusion. The data were obtained from verified books, journal articles, scientific reports, data from internet, and other relevant sources. After gathering the data from the library research, the data were analyzed by using the qualitative method to describe the relation between the phenomenon and the theory used. Finally, the data were applied to examine the theory.

G. Writing System

Chapter I

In this chapter, the background of the study, research question, theoretical framework, hypothesis, scope of research, research methodology, and writing system are determined.

Chapter II

This chapter discusses the Liquefied Natural Gas (LNG) and Japan's energy security. In order to support this chapter, there is further explanation about the trend in global LNG market and its impacts on Japan's energy security, followed by domestic and historical consideration of Japan in using LNG.

Chapter III

The study describes about the options of energy sources for Japan after the great east earthquake and countries that Japan import LNG resources from, such as Qatar, Indonesia, and Russia. Moreover, this chapter explains a comprehensive explanation about challenges and opportunities provided by each country.

Chapter IV

This chapter analyzes hypothesis from the alternatives that Japan has in the Liquefied Natural Gas cooperation with Russia. Therefore, the objective of this chapter is to know about the rational reasons in decisions made by the government of Japan regarding the cooperation of Liquefied Natural Gas energy project with Russia.

Chapter V

This chapter is the conclusion of the research.