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## **THE NEED FOR RESOURCE DIPLOMACY**

*Tatsuhiko Yoshizaki*

Just a decade or so ago, the Organization of Petroleum Exporting Countries (OPEC) introduced the “price band mechanism” to keep oil prices between US\$22 and US\$28 per barrel. The mechanism obliged OPEC member states to increase oil production if OPEC’s average basket price rose beyond US\$28 and to cut production if the price fell under US\$22. It was the strategy of oil producing countries to keep oil prices moderate; too low a price would undermine their profits, yet too high a price could encourage developed countries to invest in alternative energy technologies such as nuclear power generation.

*The views expressed in this piece are the author’s own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

Viewed from the vantage point of today, these were dream-like prices. Since the beginning of this century, the situation has changed drastically. In the fall of 2003, Goldman Sachs predicted in a report that Brazil, Russia, India and China—the BRICs economies—could become a leading force in the world economy. With this came the expectation that these populous emerging economies would require enormous resources as they developed. Suddenly, the expected future values of energy resources jumped up, and the prices of a range of international commodities, including oil, coal, iron ore, grain and soy beans, started soaring.

Analysts have pointed out that the price hikes in resources and food indicate the possibility of a bubble caused by world-wide easing of monetary policy. However, even if some of the price increase, say some US\$20-30 of the oil price that currently stands at around US\$80 a barrel, is caused by a bubble, this still leaves a significant level of real demand at around US\$50-60. There is obviously a difference from the price band era. The equilibrium of supply and demand has shifted dramatically in the past decade.


For a resource-importing Japan, this is bad news. Japan's economic structure remains that of a foreign trade country, in which Japan earns foreign currency by exporting value-added products with resources purchased overseas. Given its current account surplus, it will be hard to imagine that Japan will become unable to purchase resources from overseas in the near future. If we take into account Japan's aging society and declining birthrate, we seem to be free from worry about a rise in domestic demand for energy.

However, the world is witnessing the emergence of a new form of resource nationalism. In September last year, China suspended rare earths exports to Japan after a ship collision incident near the disputed Senkaku islands. The suspension of exports targeting a particular country violates World Trade Organization (WTO) rules. However, given that China is a great energy consumer requiring massive amounts of resources, we should be prepared in the current international circumstances for the possibility that China might insist that it needs its resources for its own domestic consumption, as we will then not be able to object to export restrictions.

We no longer live in an era where we can buy as many resources as we please at low international prices. The world today no longer works on economic principles alone. It is time for Japan to consider seriously a national strategy to secure necessary resources. Following are some of my proposals:

The first is reorganization. When the prices of energy resources were low, it was considered desirable to leave resources development and imports to market mechanisms. Hence the Japanese government dissolved Japan's National Oil Corporation (Sekiyu-Kodan) and proceeded with the merger and privatization of state financial organizations such as Japan Bank for International Cooperation (JBIC). We need to rebuild such organizational structure from the point of view of securing national interests.

The second is the promotion of resource and energy saving. If Japan competes with emerging countries in securing resources, it will only accelerate price hikes in energy resources. Rather, it is expected of Japan to lead other countries in reducing energy consumption, particularly in scarce resources such as rare earths, through the development of alternative technologies and the promotion of recycling.

The third is the building of friendly relationships with resource-exporting countries through the promotion of international cooperation such as free trade agreements (FTA). As emerging economies increase their presence as resource purchasers, Japan is losing its status as the biggest client for resource exporters. It is now important to demonstrate to the world that Japan will remain a good and reliable trading partner. 

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