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HEADLINE: Nationalism on both sides stokes fires of Sino-Japanese 'diplomatic war'

BODY:

Worsening Sino-Japanese relations will cause a military build up in the East China Sea, raising maritime confrontation risks, writes **Melissa Murphy** .

A Japanese foreign ministry official recently conceded that China and Japan are at "diplomatic war", with several incidents having caused a swift deterioration in bilateral relations.

Competition between the two for scarce energy supplies has aggravated disputed maritime claims.

China had an agreement with Russian oil giant Yukos to route an oil pipeline from Siberia to Daqing, but the project was put on hold when Japan produced a higher bid for the pipeline to be routed to Nakhodka.

In October, talks to settle a dispute over competing gas exploration projects failed to reach agreement.

Tokyo is also angered by incursions of Chinese ships, and most recently of a People's Liberation Army submarine, into its exclusive economic zone.

For its part Beijing is upset at the Japanese military's plans to set up intelligence monitoring stations on islands off Okinawa.

Anti-Japanese sentiment has long helped to shape Beijing's policy toward Tokyo.

However, nationalist feelings are also now running high in Japan, with politicians calling for a legislative change to allow a more active role for the military, partly in order to counter China's naval build up in the East China Sea.

For the first time Japan's much-anticipated National Defence Programme will name China as a threat.

In further recognition of China's emergence as a competitor, Japan announced in November it would no longer supply soft loans to China through its overseas

development aid programme.

Present poor relations - unconfirmed reports this Wednesday claimed premier Wen Jiabao declined an invitation to visit Japan - are unlikely to escalate into any form of violent conflict over the next year. But a military build-up in the East China Sea looks a near certainty.

With nationalist sentiment in both countries putting pressure on their leaders to adopt more aggressive stances, the risk of naval confrontations beyond a one-year view is increasing.

As written for Lloyd's List by Exclusive Analysis (www.exclusive-analysis.com)