

Middle East Conflicts and the Oil Market *

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I would like to make a brief comment on the presentation by Dr. Franssen. He has very concisely described how the world oil market has been affected by various political and military events in the Middle East for more than three decades. It has been also pointed out that the Middle East is now undergoing the biggest internal political and regional geopolitical change since the end of the Ottoman Empire after the First World War.

Under these circumstances, all worlds, especially many Asian developing countries including China and India will continue to increase dependency on oil imports from the Middle East in coming years. This means a very important implication for Japan who depends on the Middle East of almost 90% of total oil imports. Therefore it is vital for peace and prosperity of the world as well as Asia how to remove sources of political instability and guarantee access to oil in the Middle East. I would like to make three comments about oil and conflicts in the Middle East from a Japanese viewpoint.

1. Oil and “Democracy”

My first comment is concerning about oil and “democracy”. Most of the Middle East countries are endowed with abundant oil and gas resources as a kind of gift from the God. Since the first oil crisis in 1973, rapid inflows of huge oil money had dramatically changed their social and economic environment in the Middle East. Looking back the last three decades, we have seen so many military conflicts and political turmoil in this region, and many lives of citizens and economic wealth brought in by oil bonanza had been lost due to Iran-Iraq war during 1980-88, Iraqi invasion to Kuwait in 1990, Iraq war in 2003 and many terrorist attacks in Arab countries.

It is unfortunate reality that rulers in producing countries are apt to use oil wealth as an effective

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means to maintain their authoritarian political system rather than to utilize it for modernizing their economies. In many oil-producing countries in the Middle East, distribution of oil wealth is not transparent and it tends to be monopolized by small group in power. Therefore, in order to realize more accountable and transparent distribution of oil wealth, it is essential to introduce more democratic system of decision-making.

In addition to that, most of the Middle East oil producers are facing very serious unemployment problems of young people due to so-called “population explosion” in recent years. In order to create job opportunities for young people, governments should make every effort to diversify their economic structure and develop non-oil sectors including manufacturing and service industries. In this respect, we can see some good signs that many Arab countries including Saudi Arabia have joined the WTO and are struggling to cope with globalization of their economies.

There are some arguments that oil exporters succeeded in achieving affluent society are only democratic and market-oriented countries like Norway. In this sense, it is a big challenge for the Middle East oil producers to seek more democratic and market-base system. It seems to me that this is only way for oil rich countries not to be mocked as “oil curse” or “oil paradox” rather than “oil bonanza”.

2. Oil and US Power

Since major discoveries of giant oil fields in the Middle East early 20th century, Britain and the US used to control directly production and development of this strategic commodity by 1970s. After the nationalization of oil industry in the Middle East, major oil companies like Exxon, BP and R. D. Shell lost their oil assets and governments of oil producing countries have gained power to control their oil resources.

According to various projection of the world oil market, as Dr. Franssen already mentioned, not only “Asian Tigers” but also the US will increase oil imports from the Middle East in the foreseeable future. Late January of this year, President Bush made a statement in his State of the Union that breakthroughs on new technologies will help the US replace more than 75 % of its oil imports from the Middle East by 2025. But many energy experts are skeptical about this remark, because it is very difficult for US people to change their oil-addicted lifestyle, so-called “American way of life”. Therefore it can be said that Middle East oil is vital for the US as a global super-power in the 21st century, too.

Looking back political and military events in the Middle East since 1970s, I can point out that a US intervention to solve one problem has tended to create another new troublesome problem like a chain of reactions. For example, Iraq war in 2003 was triggered by September 11 attack by Usama Bin Ladin who strongly opposed US military presence in Saudi Arabia after the Gulf crisis brought by Saddam Hussein in 1990. Saddam's authoritarian system had been nurtured by the US support during the Iran- Iraq war during the 1980s in order to contain Iran and prevent exports of Islamic revolution to Gulf countries. Before the Iranian revolution in 1979, the US had supported King Pahlavi (the Shah) of Iran politically and militarily as a policeman in the Persian Gulf to cope with expansion of communism by the former Soviet Union.

Since oil will continue to play the most important role as energy supply sources in next several decades, US cannot disengage from Middle East conflicts in the foreseeable future. Especially the future development of US-Saudi relation will be a key factor for stability of the oil market, because Saudi Arabia is certainly to strengthen its oil power as a number one oil exporter. It may be true that official relation between two governments has been improved these days because the exchange of "oil and security" is still vital for national interests of both nations. But taking account of mutual distrusts of the public level after September 11, the US and Saudi governments had better try to keep a more appropriate distance each other. In this respect, US should make every effort to reduce oil consumption by introducing more stringent fuel-economy standards of vehicles as well as by developing alternative fuel technologies. As far as Saudi Arabia is concerned, the current political reform should be accelerated to encourage people's participation in the decision-making process.

3. Oil and Asia

It was an epoch-making event that this January King Abdullah of Saudi Arabia visited China for the first time after opening diplomatic relations in 1990 and India after an interval of 50 years. King Abdullah 's trip to two countries clearly shows that emerging "Asian Dragon and Tiger" economies are becoming more important markets for the Middle East oil exporters. As a matter of fact, about two thirds of oil export from the Middle East flowed to Asia in 2004, and it is projected to rise in coming years due to rapid increases in oil demand in China, India and ASEAN countries.

From a historical viewpoint, we can say that East Asia and the Middle East fortunately have no major conflicts in terms of political and religious relations. In old ages, two regions used to be

connected commercially by the Silk Road and trading of various goods by caravans was very active. Today the Silk Road has been changed to the Oil Road for oil tankers. In this respect, it is quite different from the historically antagonistic relation between the West and the Middle East. I think that this is very favorable condition for Asia and the Middle East to strengthen interdependency between two regions.

It goes without saying that energy sector is one of the most promising areas to encourage cooperation in terms of trade and investment, because Asian oil consuming countries need security of supply of oil, while the Middle East oil producers need security of demand of oil. In this connection, two regions can establish win-win relation as a complementary partner each other. Already many joint projects in energy sector are in operation and under construction or planning as mutual investment between Asia and the Middle East countries in recent years. In order to further encourage mutual investment, producer-consumer dialogue is valuable through various channels. As a good example, International Energy Forum (IEF) which headquarter is in Riyadh, Saudi Arabia is expected to contribute to building the stable oil market.

Finally, I would like to emphasize that oil remains to be economically and politically one of the most important commodities for the humankind in the foreseeable future. Therefore it is a formidable challenge for us not to fight each other for acquiring oil , but to make use of oil for the global economic prosperity.

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